National Library
of Canada

Bibliothèque nationale
du Canada

CANADIAN THESES
ON MICROFICHE

THÈSES CANADIENNES
SUR MICROFICHE

NAME OF AUTHOR/NOM DE L'AUTEUR SETH M CECILIO
TITLE OF THESIS/TITRE DE LA THÈSE A COMPARATIVE ANALYSIS OF
THE INTERNATIONALIZATION OF
UNITED STATES AND CANADIAN BANKS
UNIVERSITY/UNIVERSITÉ CARLETON UNIVERSITY
DEGREE FOR WHICH THESIS WAS PRESENTED/
GRADE POUR LEQUEL CETTE THÈSE FUT PRÉSENTÉE M.A. INTERNATIONAL AFFAIRS
YEAR THIS DEGREE CONFERRED/ANNÉE D'OBTENTION DE CE DEGRÉ 1979
NAME OF SUPERVISOR/NOM DU DIRECTEUR DE THÈSE PROF. J. CHANT

Permission is hereby granted to the NATIONAL LIBRARY OF
CANADA to microfilm this thesis and to lend or sell copies
of the film.

The author reserves other publication rights, and neither the
thesis, nor extensive extracts from it may be printed or other-
wise reproduced without the author's written permission.

L'autorisation est, par la présente, accordée à la BIBLIOTHÈ-
QUE NATIONALE DU CANADA de microfilmer cette thèse et
de prêter ou de vendre des exemplaires du film.

L'auteur se réserve les autres droits de publication; ni la
thèse ni de longs extraits de celle-ci ne doivent être imprimés
ou autrement reproduits sans l'autorisation écrite de l'auteur.

DATED/DATE 30/4/79 SIGNED/SIGNÉ [Signature]

PERMANENT ADDRESS/RÉSIDENCE FIXE 2659 PRISCILLA ST.
OTTAWA ONT.
K2B 7C8

National Library of Canada

Cataloguing Branch
Canadian Theses Division

Ottawa, Canada
K1A 0N4

Bibliothèque nationale du Canada

Direction du catalogage
Division des thèses canadiennes

NOTICE

The quality of this microfiche is heavily dependent upon the quality of the original thesis submitted for microfilming. Every effort has been made to ensure the highest quality of reproduction possible.

If pages are missing, contact the university which granted the degree.

Some pages may have indistinct print especially if the original pages were typed with a poor typewriter ribbon or if the university sent us a poor photocopy.

Previously copyrighted materials (journal articles, published tests, etc.) are not filmed.

Reproduction in full or in part of this film is governed by the Canadian Copyright Act, R.S.C. 1970, c. C-30. Please read the authorization forms which accompany this thesis.

**THIS DISSERTATION
HAS BEEN MICROFILMED
EXACTLY AS RECEIVED**

AVIS

La qualité de cette microfiche dépend grandement de la qualité de la thèse soumise au microfilmage. Nous avons tout fait pour assurer une qualité supérieure de reproduction.

S'il manque des pages, veuillez communiquer avec l'université qui a conféré le grade.

La qualité d'impression de certaines pages peut laisser à désirer, surtout si les pages originales ont été dactylographiées à l'aide d'un ruban usé ou si l'université nous a fait parvenir une photocopie de mauvaise qualité.

Les documents qui font déjà l'objet d'un droit d'auteur (articles de revue, examens publiés, etc.) ne sont pas microfilmés.

La reproduction, même partielle, de ce microfilm est soumise à la Loi canadienne sur le droit d'auteur, SRC 1970, c. C-30. Veuillez prendre connaissance des formules d'autorisation qui accompagnent cette thèse.

**LA THÈSE A ÉTÉ
MICROFILMÉE TELLE QUE
NOUS L'AVONS REÇUE**

A COMPARATIVE ANALYSIS
OF THE INTERNATIONALIZATION OF
UNITED STATES AND CANADIAN BANKS

by

Seth M. Cechetto

© 1979 by Seth M. Cechettó

A thesis submitted to the Faculty of
Graduate Studies and Research in partial
fulfilment of the requirements for the degree of
Master of Arts
in International Affairs

The Norman Paterson School of International Affairs
Carleton University
Ottawa, Ontario
Canada

April 2, 1979

The undersigned hereby recommend to the Faculty of
Graduate Studies and Research acceptance of this thesis, submitted
by Seth M. Cechetto, in partial fulfilment of the requirements for
the degree of Master of Arts.

John H. Sigler, Director
The Norman Paterson School of International Affairs

John F. Chant
Supervisor

ABSTRACT

The thesis studies the differences in the internationalization of U.S. and Canadian banks. Internationalization is defined as a process which consists of the international growth of assets, introduction of new financial products, the spread of foreign offices and a changing bank structure in response to the aforementioned strategies. The aggregate data for the two banking systems and a bank sample consisting of the five largest Canadian banks and fourteen of the sixteen largest U.S. banks have been analyzed. Four factors are presented as having influence on the process of internationalization: past history, banking regulations, the multinational enterprise and the interbank market.

The MNE continues to crop up as an important reason for the differences. U.S. banks have had an advantage because of their better working relationship with the MNE's. U.S. banks have been able to build their international business on the basis of their MNE customer base. Canadian banks have built up some MNE business because Canada is a host country for many MNE's but the interbank market has been the most important source of their international strength.

TABLE OF CONTENTS

LIST OF TABLES	vii
LIST OF CHARTS	ix
KEY	x
ACKNOWLEDGEMENTS	xi
Chapter	Page
I. INTRODUCTION	1
The Structure of the Thesis	2
Internationalization	6
Internationalization and Individual Banks	11
The Multinational Enterprise	13
Notes	15
II. HISTORICAL COMPARISON	16
The Pull of Home Country Firms	17
Past Networks and Present Internationalization	20
Retail Banking in Developing Countries	24
Conclusions	33
Notes	35
III. HOME COUNTRY BANKING REGULATIONS	37
Concentration	40
Interest Rates and Reserve Ratios	50

Controls on Foreign Investments	56
Control of Foreign Activities	64
Supervision	76
Conclusions	83
Notes	87
IV. THE MULTINATIONAL ENTERPRISE	92
Banking Strategy	94
Structural Influence	129
Conclusions	139
Notes	142
V. THE INTERBANK MARKET	147
Interbank Liabilities	150
Interbank Assets	156
Conclusions	170
Notes	174
VI. CONCLUSIONS	176
Multinational Retail Banking: The Wave of the Future	182
Notes	186

APPENDIX A: Bank Sample	187
APPENDIX B: Mergers and Acquisitions of U.S. Banks Since 1950	189

APPENDIX C: The United States Offices of Canadian Banks	190
APPENDIX D: Foreign Branch Interbank Liabilities of U.S. Banks	192
APPENDIX E: The International Assets of U.S. Banks	193
APPENDIX F: The European Networks of Canadian Banks	196
APPENDIX G: The Asian Networks of Canadian Banks	198
APPENDIX H: Guidelines for Canadian Chartered Banks	199
APPENDIX I: Foreign Branch Networks of U.S. Banks	200
APPENDIX J: International Assets of Canadian Banks	202
APPENDIX K: International Earnings of U.S. Banks	204
APPENDIX L: World-Wide Loan Distribution of U.S. Banks	206
BIBLIOGRAPHY	208

LIST OF TABLES

Table		Page
1.1	International Activities	7
2.1	Foreign Branch Networks of U.S. Banks in Developing Countries	27
2.2	Foreign Branch Networks of Canadian Banks in Developing Countries	30
3.1	Retail Branch Networks	49
3.2	Foreign Currency Call Loans	57
3.3	Number of Eurocredit Syndications Managed or Co-Managed	73
3.4	Number of Eurocredit Syndications Lead Managed and Co-Managed	74
3.5	Capital and Surplus of Major U.S. Banks	80
4.1	United States Direct Foreign Investment	99
4.2	Foreign Branches of U.S. Banks	101
4.3	Percentage of U.S. Foreign Affiliates Sales which are Exported	103
4.4	Direct Investment and Canada	115
4.5	Relative International Size of Canadian Banks	117
4.6	World-Wide Distribution of Foreign Currency Assets of Canadian Banks	128
5.1	U.S. Branches in London	149
5.2	Dependence of the Foreign Branches of U.S. Banks on Interbank Liabilities	151
5.3	Overseas Interest Bearing Liabilities of Wells Fargo & Co.	153
5.4	International Interbank Assets of U.S. Banks	158

5.5	International Assets: United States Banks	160
5.6	International Interbank Business of Canadian Banks	163
5.7	International Profits of Canadian Banks	165
5.8	International Assets of Canadian Banks	166

LIST OF CHARTS

Chart		Page
3.1	Bank America Major Operating Subsidiaries	62
5.1	The Interbank Dependence of U.S. and Canadian Bank Assets	169

KEY

x

ACU	Offshore Commercial Bank (Asian Currency Unit)
BHCA	Bank Holding Company Act
CC	Comptroller of the Currency
CIBC	Canadian Imperial Bank of Commerce
DFI	Direct Foreign Investment
EAC	Edge Act Corporation
FRA	Federal Reserve Act of 1913
FRB	Federal Reserve Board
IET	Interest Equalization Tax
MNE	Multinational Enterprise
SBA	State Banking Authorities

ACKNOWLEDGEMENTS

I would like to thank Prof. John Chant and Prof. E.J. Gardner for their time and advice. My wife, Deborah, has been very patient and brought the thesis to a conclusion with an excellent job of typing.

CHAPTER I

1.

INTRODUCTION

During the post-war era Canadian and U.S. banks have undergone extensive development in their international activities. The international developments have consisted of a series of changes in types of activities and expansion in the volume of activities in response to a number of important factors. This author has determined to call the process of change "internationalization", a term previously used by R.M. Thompson, Chairman of the Toronto-Dominion Bank, in order to describe the increase in the volume of international assets held by Canadian banks.¹ For the purpose of this thesis, internationalization means not only growth in the volume of international assets but also geographical dispersion of direct foreign investments and loans; the introduction of new international products and functions; and the pursuit of new international customers. The bank policies or strategies have resulted in corresponding structural changes in pursuit of more efficient bank operations.²

The definition of internationalization used in this paper is consistent with a definition used by Johanson and Wiedersheim, the two authors who seem to have introduced

the term to the business-literature.³ They explain internationalization as the "consequence of a series of incremental decisions". They view internationalization as a slow process of change which is impeded by lack of international expertise and resources. The obstacles are overcome slowly by "incremental decision-making and learning about foreign markets and operations". The thesis deals with the factors which influence the process of internationalization. Some of these factors involve "learning about foreign markets and operations" but there are also external factors such as government regulations, the multinational enterprise and the interbank market.

The Structure of the Thesis

The thesis is a comparative study of the internationalization of U.S. and Canadian banks. The study has been organized around the important factors which have influenced the process of change. Each factor has been set-up as a separate chapter. In each chapter the influencing factor is discussed in general and then applied to the two banking systems, usually at both the aggregate and individual bank levels. This study involves four important factors: past,

usually pre-World War II activities of the banks; home country banking regulations; the multinational enterprise; and the interbank market.

Historical Comparison

Chapter Two studies the past international activities of the banks and their influence on the more recent (post 1950) period of internationalization. In this chapter we find that Canadian and U.S. banks tended to follow their domestic customers abroad. Since U.S. companies were involved in more trade and investment and in more widespread locations than Canadian companies, they developed more geographically strategic networks. Due to the more strategic networks, major U.S. banks were better prepared to service MNE's during the rush overseas of the 1950's and 1960's.

The extent of present foreign networks seems to be related to the extent of past direct foreign investment. The banks with the biggest networks all began prior to the major thrust of internationalization which took place in the late 1960's and early 1970's. This direct relationship between past and present networks is specifically explained in an example concerning retail banking in developing countries.

Banking Regulations

In Chapter Three home country banking regulations are shown to be an important influence on internationalization. The most important difference between the two regulatory systems is that U.S. banks are much more regulated in their international activities than their Canadian counterparts. The differences in regulations have had some differential effects on volumes of international business, locations of overseas investments and the types of international business. But banking regulations have not become the most important differentiating influence on internationalization because the U.S. regulations although more extensive, tend to be of a positive nature with respect to foreign activities. Both U.S. and Canadian banks seem to find methods of circumventing the regulation if it prohibits a desired business. The U.S. banks have been more aggressive than the Canadian banks and utilized their "loopholes" to a much greater extent.

Indirectly the regulations have influenced the relationship between banks and MNE's. U.S. regulations have encouraged the development of wholesale banks with specialized corporate banking divisions. Canadian regulations have encouraged the development of large banks based on

extensive retail branch networks. The wholesale specialization of U.S. banks has better prepared them for worldwide business with the MNE.

The Multinational Enterprise

The most important factor which has differentiated the banks of the two systems has been the relationship between the banks and the multinational enterprise (MNE). The MNE has had the greatest influence on U.S. banks because the U.S. is home country to a majority of the world's MNE's. To a lesser extent, Canadian banks have been influenced by the MNE but generally in a different manner because Canada is a major host country for the world's MNE's (especially U.S.). The most internationalized banks in the world are some of the U.S. banks and a major factor has been the close working relation between U.S. banks and U.S. MNE's.

The Interbank Market

The chapter on the interbank market has been included because there still are some gaps in the explanation of internationalization. Since the middle sixties, interbank deposits have accounted for a substantial part of the international assets and liabilities of U.S. and Canadian banks. It is a type of market dealing in large wholesale

amounts where banks can build-up quickly the size of their international assets with very little direct foreign investment. The growth of the more lucrative commercial loan business has been at a much slower rate. The Canadian banks have been more dependent on the interbank market than U.S. banks. In general, it can be said that the U.S. banks had a head start in commercial loans in overseas markets because of their closer relationship with the MNE. The Canadian banks have used the interbank market as a good international asset base from which they have been able to pursue more lucrative business such as loans to MNE's.

Internationalization

Before proceeding with Chapter Two, internationalization needs a better explanation. Since World War II, there has been significant international expansion by both U.S. and Canadian banks. For example, international assets have been growing faster than domestic assets in both banking systems, as illustrated by Table 1.1. International assets for Canadian banks grew from 8.4% of total assets in 1950 to 19.5% in 1965 and 31.6% in 1977. International assets for U.S. banks grew from 3.1% in 1960 to 5.1% in 1965 and 23.5% in 1977.

Table 1.1

International Activities

CANADA UNITED STATES

	CANADA		UNITED STATES			
	Int. Assets A	Ratio of Int. Assets to Total Assets B	Total Foreign Branches C	Int. Assets D	Ratio of Int. Assets to Total Assets E	Total Foreign Branches F
	\$Cdn.	%		\$U.S.	%	
1950	.8	8.4	103			95
1955	1.1	8.9	123			111
1960	2.7	16.1	130	8	3.1	124
1965	5.	19.5	180*	19.4	5.1	211
1970	13.7	28.9	215	54.2	9.4	570*
1975	31.2	28.8	270*	189.9	20.1	762
1977	47.7	31.6	277	273.9	23.5	738

*Estimated

Sources

Column A

Canada, Bank of Canada. Bank of Canada Review. Ottawa, various issues.

Column B

See Appendix J

Column C

Canada, Ministry of Industry, Trade and Commerce. Canada Year Book. Ottawa, various issues.Canadian Bankers Association. 1978-79 Fact Book. Toronto: The Canadian

Bankers Association, 1978.

Column D

See Appendix E

Table 1.1
Continued

Column E

See Appendix E

Column F

United States, Board of Governors of the Federal
Reserve System. Annual Report. Washington,
D.C., various issues.

Both banking systems have expanded via direct foreign investment including new branches, representative offices, subsidiaries and joint ventures. For example, Canadian banks had 103 foreign branches in 1950 and 277 in 1977. U.S. banks had 95 foreign branches in 1950 and 738 in 1977. The two banking systems have also introduced many new products and functions to serve their international customers. The most important new products are related to the Eurodollar market and include Eurobonds, medium term Eurocredits, London dollar certificates of deposit, multinational leasing etc.

The international growth of the banks has been reflected in the changing structures of the banks. In the late fifties, the banks converted their foreign departments to international departments. During the sixties, the international departments became full fledged divisions. Subsequently the divisions have been divided into regional and product departments, often with overseas autonomy. The most recent and important development has been the restructuring of the banks on a global basis. For example, Citicorp and Continental Illinois Corporation have created special "product" divisions with global credit responsibility for serving their multinational enterprise business clients. "Banks from both the U.S. and Canada are now members

of a world-wide industry which view themselves as international institutions exploiting market opportunities wherever they appear."⁴

The large U.S. and Canadian banks with considerable international assets now variously call themselves international banks, transnational banks, corporate banks, multinational banks and geobanks. For example, D. Vollmer of Bank America Corporation states that his bank is a "multi-national enterprise.....an essentially private business organization which conducts its operations through direct investment abroad and which aims to harness its resources to achieve global objectives without regard to national boundaries".⁵ Citicorp's management describe their bank as a "global corporation serving the financial needs of individuals, business and governments in 95 countries throughout the world". G. Styles of the Royal Bank of Canada describes Canadian banks as "having changed from banks with international departments to international banks with their head office in Canada".⁶ B. Peel of the Bank of Nova Scotia states that "their bank is as much an international bank as a domestic one".⁷

Internationalization and Individual Banks

Although the executives of the banks seem to be making similar strategic claims, the banks they represent are actually very diverse in nature. There are many differences, both among the individual banks and between the two banking systems. During the post 1965 decade, all the banks in the sample (see Appendix A) went through a rapid period of change and many are still in the process of change. It would be difficult to analyze the banks with respect to a static theory of multinational corporations because at this point in time, no U.S. or Canadian bank fits snugly into the models as developed in the literature on non-financial industries and no well developed model exists in the banking literature. Therefore, for the purpose of this thesis, the definition of internationalization, as presented on page 1, has been very loosely specified. Similar vague definitions have already been used by other authors concerned with international banking. S.W. Robinson uses the term multinational banking and defines it as "operating a bank in and conducting banking operations that derive from many different countries and national systems".⁸ H.G. Grubel in his theoretical article describes multinational banking as "involving the ownership of banking facilities in one country by the citizens of another".⁹ R.Z. Aliber is content to call

the same phenomena "international banking".¹⁰

Citicorp is the most internationalized bank contained in the sample. By assets it is the second largest bank in the world. It has a total of 1,295 branches, subsidiaries, representative offices and affiliate companies outside of the U.S. 64% of Citicorp's assets are held in foreign offices or are head office claims on foreigners and 46% of Citicorp's international loans are in local currency. Citicorp professes a global strategy and its organizational structure is based on divisions with world-wide product responsibility.

The other U.S. and Canadian banks are in some state of metamorphosis behind Citicorp. But due to the various influences on internationalization, such as the multinational enterprise, government regulations, the interbank market, and the time frame, most other U.S. and Canadian banks will not attain the same internationalization as Citicorp. Since 1976, most U.S. banks have been in a state of consolidation and reevaluation¹¹ and a similar situation seems to be occurring in the Canadian banks. Therefore, internationalization must connote a process of change along certain lines but the ultimate form is intimately tied to the various factors which have influenced internationalization.

The Multinational Enterprise

The term multinational enterprise also needs more explanation. The multinational enterprise or multinational corporation has as many definitions as there are books or articles on the topic. But there seems to be three key characteristics which come up often in the literature. They are as follows: first, extensive overseas presence; second, actual or potential centralized control of overseas activities; third, a global strategy. A typical example of a definition is the one presented by W.A. Dymsza, "A multinational enterprise is a highly developed corporation with a deep world-wide involvement and a global perspective in its management and decision making."¹² This type of definition significantly narrows the field to a relatively small number of actual firms. R. Vernon includes in his list 250 firms headquartered in the U.S., 150 in various countries of Europe, 70 in Japan and 20 in all the rest of the world.¹³ This small group of companies has always received special attention from the banks and presently some U.S. banks have developed special divisions just for the select group of MNE's.

But this paper tends to use a broader definition which includes not only the small elite group of companies but also other U.S. and Canadian firms engaged in significant

international business. This type of approach was taken by I. Litvak and C. Maule in their article, "The Multinational Firm: Some Perspectives". The two authors present a definition of the multinational enterprise which hinges on a "global plan of action". They subsequently state that few companies actually meet the criteria but their "following discussion.....is relevant to other firms that are engaged in international business".¹⁴ This type of approach is also consistent with the views presented in the literature on banking. The writers tend to speak of the effects of the multinational enterprise but usually include in their meaning all those home country firms involved in significant international business. John A. Waage, Vice Chairman of the Manufacturers Hanover Trust Company, uses a similar definition in his article on "Meeting the Banking Needs of Multinational Companies". He states that "international bankers have little need for a tidy theoretical definition. For them....it is only necessary that the company be operationally positioned in more than one country".¹⁵

Notes

1. Thomson, "Internationalization of Canadian Banks," p. 19.
2. A.D. Chandler defines "strategy as the determination of basic long term goals and objectives of an enterprise and the adoption of courses of action and allocation of resources necessary to carry out these goals. A structure is the design of organization through which the enterprise is administered. He deduces that structure follows strategy." Chandler, Strategy and Structure, p. 13, 14.
3. Johanson, "Internationalization of the Firm," p. 306.
4. Davis, "Risky International Lending," p. 136.
5. Vollmer, "Bank of America," pp. 137, 138.
6. Davidson, "Canadian Banks Think Globally," p. 9.
7. Ibid.
8. Robinson, Multinational Banking, p. 4.
9. Grubel, "Multinational Banking," p. 349.
10. Aliber, "Towards a Theory of International Banking," p. 9.
11. Hurst, "International Relationships of U.S. Banks," p. 788.
12. Dymsza, Multinational Business Strategy, pp. 5, 6.
13. Vernon, Storm Over the Multinationals, p. 12.
14. Litvak, "The Multinational Firm," p. 22.
15. Waage, "Banking Needs of MNC's," p. 789.

CHAPTER II

HISTORICAL COMPARISON

A short study of the pre-1950 history of the international business of U.S. and Canadian banks has been beneficial because past international activities of the banks seems to have had two types of influence on more recent developments. First, the past has developed some general trends which are reflected in the more recent period of internationalization. The earliest overseas branch expansion by banks from both the U.S. and Canada was generally in response to the trade and investment requirements of home country firms. Early overseas branching seems to have been in the footsteps of North America's first multinational enterprises.

Second, past international activities seem to have had some direct effects on the post-1950 period of internationalization. The most internationalized banks of both banking systems had the earliest foreign expansion and the most extensive foreign branch networks. This effect is especially evident in retail type banking in developing countries. U.S. and Canadian banks generally have only made significant overseas retail banking investments in the developing countries. The extent and location of retail investments is generally

closely related to pre 1950 branching by the banks.

The Pull of Home Country Firms

The United States

During the 19th century U.S. banks had no foreign branches and only a few subsidiary banks in Europe.¹ They were also prohibited from financing trade in U.S. dollars. "National banks of the U.S., with rare exceptions, did not attempt to carry out foreign banking transactions."² At the beginning of the 20th century, the U.S. banks were still dependent on the world-wide networks of British, Dutch, French and German banks for overseas transactions. This whole process changed after the Federal Reserve Act of 1913 which allowed U.S. banks to have foreign branches and finance in U.S. dollars. The Act allowed U.S. banks to offer short term trade acceptances to assist trade with Latin America without going through a British or continental bank.⁴ As the U.S. became an exporter of manufactured goods, overseas networks were also seen as a necessary agent to assist home country trade.⁵ The instigators of the FRA felt that it was necessary to give U.S. firms the same national support as ~~British~~ and German firms received from their national banks.

The U.S. banks followed their domestic customers into the overseas markets. U.S. investors and traders wanted U.S. banks overseas. United States Steel had a \$100 million contract in Argentina and promised its deposits and the deposits of other U.S. companies if the National City Bank opened a branch in Argentina. On September 22, 1914 soon after the passage of the F.R.A., National City Bank's application to set up a branch in Buenos Aires was approved by the Federal Reserve Board.⁶ The First National Bank of Boston opened a branch in Argentina to serve the New England wool and hide industries,⁷ and in Cuba to finance the sugar trade because several of the largest sugar companies had their headquarters in Boston.⁸ There was a similar expansion of U.S. banks into China in the early twenties due to the increasing importance of U.S. commercial and financial interests in this area.⁹

By 1925 the U.S. banks had a large U.S. customer base already invested overseas. In 1925 there were about 400 U.S. firms operating in China, 130 in Japan, 120 in Brazil, 50 in Argentina, 50 in Chile, 20 in Peru and Uruguay etc.¹⁰ The U.S. banks expected a substantial business base from U.S. individuals and enterprises

operating in foreign countries. Banks expected that U.S. citizens and companies had a "national preference for their own banks" and U.S. foreign affiliates perceived that they received better support from the branch of a U.S. bank.¹¹

Canada

Canadian banks began to open foreign branches in the 19th century. The usual reason given was generally related to Canadian trade. The Bank of Commerce opened an agency in New York in 1872 to not only finance trade with Canada but also to finance U.S. trade since the U.S. National Bank Act of 1862 prohibited U.S. banks from participating in this market.¹² The Dominion Bank opened an office in London in 1911 due to the "steadily increasing volume of business between Canada and Great Britain".¹³ The first Canadian branches in the West Indies were an outcome of the close trade ties between this area and Halifax.¹⁴ The Bank of Commerce was looking for a place to expand and decided on the West Indies because of the trade prospects.¹⁵

Past Networks and Present Internationalization

The United States

The U.S. banks which built overseas networks prior to 1950 received some advantages over the U.S. banks which did not begin their expansion until the rush of the 1960's. Prior to World War II it was generally only the New York banks and the First National Bank of Boston which had developed networks. In 1926 National City Bank controlled 84 of 107 branches; Chase had 3; Bankers Trust and First National Bank of Boston, 2; and Guaranty Trust Company, 8.¹⁶ After World War II these banks were joined by Bank of America, and by 1956 U.S. banks had the following foreign branches: First National City Bank, 66; Bank of America, 13; First National Bank of Boston, 15; Chase Manhattan, 19; Guaranty Trust, 4; Morgan, Hanover, and Bankers Trust, 1.

Chase Manhattan, Citicorp and Bank America presently have the most extensive international networks and the largest amounts of international assets. (see Appendixes A and I) Bankers Trust Co., J.P. Morgan and First National Bank of Boston also have a high percentage of international assets but have much smaller networks. They remain important in international banking but in more specialized fields. The First National Bank of Boston is a "regional" bank with

most branches in South America. (see Appendix I)
Bankers Trust and J.P. Morgan have kept to the main financial centres and are strong in large wholesale type deals; for example, project financing.

It is also significant that the three largest U.S. banks had not only large international networks prior to 1956 but they were also spread strategically around the world in important commercial or financial centres. First National City Bank had branches in 5 countries in Asia, 3 in the Middle East, 7 in South America, 2 in Central America, and 2 countries in Europe. Bank of America was in Asia, Europe, and the Middle East. Chase Manhattan Bank was in Europe, Asia, Middle East and Caribbean.

The growth of international banking during the 1960's and 1970's has taken place with wholesale customers, especially the MNE. The U.S. banks with world-wide networks prior to 1956 were able to make a head start in the wholesale business over both other U.S. banks and the Canadian banks. J.P. Morgan, the U.S. bank with the second highest percentage of international assets, had a small but strategic network prior to 1956. J.P. Morgan had 4 branches in three European countries and had been in Europe in some form since the 19th century. The majority of

international wholesale banking has taken place in Europe.

Appendix L shows that the more internationalized U.S. banks have the largest share of their international loans with European customers. 52% of J.P. Morgan's international loans are with European borrowers, the highest for any U.S. bank, and 10 of its 17 foreign branches are in Europe.

Canada

The five largest Canadian banks entered the fifties with important international networks already in place. In 1950 the Canadian banks had 103 overseas branches with 83 in Latin America and the Caribbean. The same five Canadian banks had at least single branches in New York and London. The Royal Bank and Bank of Nova Scotia had very extensive branch systems in the Caribbean and Latin America; only the Toronto-Dominion Bank was confined solely to New York and London.

The New York and London branches were very important because they were probably the two most important international financial centres of the world. Prior to 1950 the high levels of foreign currency assets held by Canadian banks were not a result of the extensive Latin American and Caribbean networks but were much more

dependent on the business from the London and New York branches. All during the first quarter of the 20th century, call loans to investment dealers in New York accounted for about 40% of the foreign currency assets. These loans fell off during the depression and accounted for a significant portion of the decrease in foreign currency assets. Another important type of business during this period was foreign currency trade financing through Canadian, New York and London offices. London was also the major financial centre where Canadian firms raised capital.

During the post World War II era, New York has given Canadian banks access to head offices of the U.S. MNE's which were spreading around the world during the 1950's and 1960's. London became the centre of eurodollar activity in the 1950's. Canadian banks were well established in London with good reputations and became major participants in eurodollar business.

In the past the Royal Bank and Bank of Nova Scotia had the largest international networks among the Canadian banks and the same is true today. Pre-World War II networks have given the two banks a head start over other Canadian banks, with regard to building foreign networks. Networks increase the ability of a bank to make overseas commercial loans. The chapter on Interbank Assets shows that the banks of both countries, with the most extensive

networks have the least dependence on the interbank market. Among Canadian banks the Bank of Nova Scotia and the Royal Bank have the largest amounts of international commercial loans and the least dependence on interbank assets. But the two Canadian banks were still behind the three major U.S. banks because the Royal Bank and Bank of Nova Scotia were too regionally specialized in the Caribbean and Latin America.

Retail Banking in Developing Countries

Retail banking consists of banking services for the consumer and small local business. H.G. Grubel defines "multinational retail banking" as the "ownership of banking facilities in a foreign country which services local customers by providing the same deposit and loan facilities as the local commercial banks".¹⁷ There has been very little of this type of investment by U.S. and Canadian banks in the developed countries.¹⁸ But in the developing areas, particularly Latin America, Canadian and American banks were able to invade local banking markets because they entered the area at a time when the local bankers were very poorly developed.¹⁹ The foreign bankers used their expertise and advanced technology to an advantage over the local bankers.

The banks which did penetrate the developing country markets prior to 1950 were generally the only banks which expanded retail operations during the 1950's and 1960's. New penetration and most expansion by U.S. and Canadian banks already in place has now been eliminated by host country legal barriers. Many developing countries, as early as the mid-1960's, have closed the door to new and/or expanded investments within their borders. At best, banks are now limited to only a few specific types of investments. New laws definitely give advantage to those banks which are already well established.

Foreign banking in Singapore is a particularly good example of this complex situation. Foreign banks are allowed into Singapore on the basis of one of the following categories:

1. full commercial banks
2. restricted commercial banks
3. offshore commercial banks (ACU)

The offshore commercial banks or ACU can deal only in foreign currency and it is the only type of license which is now being granted to incoming foreign banks.²⁰ In the local market, ACU's are restricted to very large wholesale deposits and require government approval to make local loans.²¹ The five Canadian and eleven of the U.S. banks have this type of license. The restricted commercial banks which

include one U.S. bank are restricted to one banking office and only wholesale business. On the other hand, full commercial banks may offer all the banking services. Four U.S. banks (America, Chase, Citicorp, First Chicago) have this classification. These banks may also do ACU type business as long as they keep a separate account.²² Therefore, in Singapore, the four U.S. banks have a definite business advantage in the local markets over the Canadian and other U.S. banks.

United States

The U.S. banks which presently have overseas retail networks, generally began these networks before 1950. Table 2.1 shows that in 1956 First National City Bank, Chase Manhattan Bank and First National Bank of Boston had branches in developing countries. During the period 1956-1976 these networks grew and the banks were joined by Bank of America. Bank of America had already begun spreading its branches around the world after 1945 and soon after 1956 began its retail networks in developing countries. At the present time, there does not seem to be any new significant growth of these networks and the other banks in the sample have not tried to compete.

Table 2.1

Foreign Branch Networks of U.S. Banks

in Developing Countries

		<u>1956</u>			
<u>First Nat. City Bank</u>		<u>Chase Manhattan</u>		<u>First Nat. Bank of Boston</u>	
Brazil	7	Cuba	4	Argentina	6
Colombia	4	Panama	3	Brazil	3
Cuba	10			Cuba	6
Venezuela	3				
Philippines	4				

		<u>1976</u>			
<u>Citicorp</u>		<u>Chase Manhattan</u>		<u>Bank America</u>	
Colombia	9	Dom. Republic	7	Colombia	6
Ecuador	4	St. Thomas	5	Ecuador	4
Panama	4	Panama	11	Dom. Republic	4
Brazil	10	Singapore	3	Panama	5
Venezuela	3	Hong Kong	3	Guatemala	3
Colombia	9	St. Croix	4	Singapore	4
		Trinidad	3		
<u>First Chicago</u>		<u>First Nat. Boston</u>			
Jamaica	9	Argentina	12		
		Brazil	5		
		Bolivia	2		

Sources

The Banker Research Unit. Who Owns What In World Banking 1976-77. London: The Banker Research Unit, 1976.

"United States Banking Organization Abroad." Federal Reserve Bulletin 42 (December 1956): 1284-1299.

First National Boston Corp. Annual Report. Boston, 1977.

Subsidiaries in developing countries are generally confined to the "big three banks". Security Pacific which controls 70% of the Bank of Canton (S.E. Asia) seems to be one of the few exceptions to this rule. Citicorp controls 76% of the Far East Bank, a finance company in Hong Kong, a bank in Honduras etc. Chase and Bank of America also have some subsidiaries in developing countries and these are predominantly in Latin America.

The typical present retail type investments for all U.S. banks seems to be the affiliation. Most U.S. banks have at least a few minority investments in local commercial banks, trust or finance companies. ~~Some~~ of this type of investment is due to host country legal environments. In the Philippines a policy was set to attract minority equity investments in local banks in order to inject more capital and experience. Subsequently six U.S. banks have taken advantage of this law.²³

Canada

"Nineteenth century trade led Canadian banks abroad to developing countries to provide facilities for domestic customers because there were no host country banks."²⁴ The major type of investment has been branches in the developing countries of Latin America and the Caribbean.

This process began around the turn of the 20th century when Canadian banks went south to facilitate Canadian trade. The number of countries and size of networks have since varied over time but by 1950 three Canadian banks were well established in this area: The Royal Bank, Bank of Commerce and Bank of Nova Scotia. (see Table 2.2) The Bank of Montreal became involved through a joint venture in the late fifties but this joint venture was dissolved in 1973 and the Bank of Montreal has not attempted to expand further its retail presence in developing countries. In 1977 it sold the remnants of its joint venture in Jamaica to the government. The three banks which were established in Latin America and the Caribbean by 1950 steadily increased their presence during the 1950's and 1960's as shown by Table 2.2. The growth was only marred by Cuban nationalization of foreign banks in 1960.

Since the late sixties there has been a move by Canadian banks away from retail branches in developing countries to subsidiaries and affiliates. Both subsidiaries and affiliates have involved few new acquisitions but for the most part have consisted of local incorporation and planned divestiture. Some of this divestiture has been due to host country legislation (e.g. Venezuela) while in others it is due to a mixture of informal governmental pressures,

Table 2.2

The Foreign Branch Networks of Canadian Banks
in Developing Countries

1950

<u>Bank of Nova Scotia</u>		<u>Bank of Commerce</u>		<u>Royal Bank</u>	
B.W.I.	13	B.W.I.	3	B.W.I.	12
Cuba	7			Cuba	17
				Lat. America	19
				Dom. Republic	5

1960

<u>Bank of Nova Scotia</u>		<u>Cdn. Imp. Bank of Commerce</u>		<u>Royal Bank</u>	
B.W.I.	22	B.W.I.	10	B.W.I.	22
Dom. Republic	2			Puerto Rico	5
Puerto Rico	3			Lat. America	26
Trinidad	2			Dom. Republic	8

1970

<u>Bank of Nova Scotia</u>		<u>Cdn. Imp. Bank of Commerce</u>		<u>Royal Bank</u>	
Bahamas	7	Bahamas	4	Argentina	3
Trinidad	13	Barbados	2	Bahamas	10
Barbados	3	Jamaica	10	Br. Honduras	3
Dom. Republic	5	Trinidad	5	Colombia	6
Puerto Rico	5			Dom. Republic	12
St. Lucia	2			Guyana	6
Br. Honduras	2			Jamaica	12
				Puerto Rico	6
				Trinidad	12
				Venezuela	6
				West Indies	12

Sources

Canada. Statistics Canada. Canada Year Book,
Ottawa: Information Canada, 1953, 1962 and 1972.

local nationalism and an overall bank strategy to move away from overseas retail banking.

This trend is evident in all three of the Canadian banks which have had a major retail "branch" presence in Latin America and the Caribbean. The Bank of Nova Scotia is committed to a policy of local participation and ownership. In 1967 its Jamaican network of 34 branches was locally incorporated and 25% of the shares were sold publicly.²⁵ Subsequently a further 5% of the shares were sold and in 1971 the Bank of Nova Scotia stated that it intended to give Jamaicans majority ownership within 5 years.²⁶ In 1972 the same type of local incorporation was carried out in Trinidad and Tobago and 23% of the shares were sold locally.²⁷

The Royal Bank incorporated its Brazilian branches locally in 1966 and subsequently sold 50% to the Bank of America. It has also incorporated locally and usually gone public in Trinidad, Jamaica, Colombia and Venezuela. In Venezuela the Royal had to divest to meet the requirements of 1971 legislation which restricted foreigners to 20% ownership of a bank. In Colombia new legislation required that the Royal locally incorporate by 1977 and divest 51% control by 1978. The Royal sold 39% of its newly formed subsidiary in Trinidad and plans to sell up to 51% by 1978. The bank has

also sold 25% of its Jamaican subsidiary and will sell up to 50% when the market is ready. The CIBC was the last Canadian bank to stop expanding its retail "branch" network in the Caribbean (1973) and now has also joined the trend towards subsidiaries.²⁸ In 1976 the CIBC locally incorporated its Jamaican branches and plans to do the same for Trinidad and Tobago in 1977.

During the 1950's and 1960's the Canadian banks which expanded their retail networks in developing countries had been well established in most of these countries prior to 1950. But the expansion of these networks seems to have stopped. The trend by Canadian banks has been from retail "branches" to local incorporation to divesture of majority control. There does not seem to be any new retail investments by Canadian banks in developing countries in the form of branches or subsidiaries. The more recent retail investments have been in the form of minority equity investments or affiliations. Host country regulation has been the major factor in evolving the new types of retail investments and in protecting the local retail markets from new foreign investment.

Conclusions.

Although Canadian banks were the first to make direct foreign investments, some large U.S. banks soon caught up after the Federal Reserve Act of 1913. The three major U.S. banks pushed ahead of the Canadian banks by spreading out around the world in strategic financial centres instead of confining themselves to a region. Prior to 1950, the most internationalized Canadian banks had extensive networks in the Caribbean and Latin America, and during the 1950's and 1960's they were able to keep pace with the retail expansion of the big three U.S. banks in the same countries. But the largest upsurge in international banking during the 1960's took place in the wholesale markets and the big three U.S. banks were more strategically placed in the world to compete in this market.

The banks of both countries began their overseas expansion by following the footsteps of home country non financial firms. In retrospect, it is probable that even prior to World War II a greater number of U.S. companies than Canadian companies expanded to more countries. This seemed to produce a greater geographical dispersion of U.S. foreign branches.

The direct foreign investment of U.S. and Canadian banks prior to World War II produced retail networks

in the Caribbean and Latin America. Only banks which were strong in this area, prior to 1950, made significant expansion during the 1950's and 1960's. During the 1970's host country legislation has stopped new banks from entering these markets and/or limited new investments to specific restricted types.

Notes

1. "United States Banking," Federal Reserve Bulletin, p. 1285.
2. Ross, History of the Bank of Commerce, p. 64.
3. Vollmer, "Financial Institutions," p. 139.
4. Stern, United States International Banking, p. 132.
5. Phelps, Foreign Expansion, p. 70.
6. Robert Mayer, "American Banking Empire," p. 66. and Abrahams, American Finance, p. 22.
7. "United States Banking," Federal Reserve Bulletin, p. 1287.
8. Martin Mayer, The Bankers, p. 435.
9. Stern, U.S. International Banking, p. 313.
10. Phelps, Foreign Expansion, p. 80.
11. Ibid. p. 81.
12. Ross, History of the Bank of Commerce, pp. 63, 64.
13. Schull, One Hundred Years of Banking, p. 106.
14. Bank of Nova Scotia, The Bank of Nova Scotia, pp. 71, 72. and Neufeld, Financial System of Canada, p. 125.
15. Trigge, History of the Bank of Commerce, p. 12.
16. Phelps, Foreign Expansion, p. 211.
17. Grubel, "Multinational Banking," p. 351.
18. See final conclusions for retail banking in developed countries.
19. Grubel, "Multinational Banking," p. 351.

20. Bhattacharya, The Asian Dollar, p. 21.
21. Ibid.
22. Ibid., p. 19.
23. Gonzaga, "Philippine Capital Rules," p. 62.
24. Finlayson, "Royal Bank in the International Scene,"
p. 77.
25. Bank of Nova Scotia, Annual Report 1970.
26. Ibid... 1971.
27. Ibid.., 1973.
28. Canadian Imperial Bank of Commerce, Annual Report 1973.

CHAPTER III

HOME COUNTRY BANKING REGULATIONS

Home country banking regulations have influenced the internationalization of U.S. and Canadian banks. Banking regulations have had direct effects on: the attractiveness of foreign banking, the types of investments and activities allowed, location of international activities and the volume of international business. More importantly regulations have indirectly assisted in the creation of banking strategies which have helped or hindered international business. This chapter will study both the direct and the indirect effects of home country banking regulations. The study has been facilitated by dividing regulations into five categories:

- Concentration
- Reserves and Interest Rates
- Controls on Foreign Investments
- Control of Foreign Activities
- Supervision

Under each category there is a general explanation of the category and then a study of the situation in the two countries. An attempt has been made to define the type and extent of influence of the regulation and the resulting differences between the two banking systems.

Regulatory Agencies

First the regulations of the two banking systems require some general explanation. American banks are faced with three important sources of home country authority; the Federal Reserve Board (FRB), the Comptroller of the Currency (CC) and various State Banking Authorities. American banks may be incorporated at the state or national level. Of the 14 American banks used as a sample in this thesis nine are incorporated nationally and five are incorporated at the state level. They are as follows:

National	State
Citicorp (N.Y.)	Bankers Trust (N.Y.)
Chase Manhattan (N.Y.)	Manufacturers-Hanover (N.Y.)
Continental Illinois (Ill.)	Morgan Guaranty (N.Y.)
First Chicago (Ill.)	Chemical (N.Y.)
Bank of America (Cal.)	Marine Midland (N.Y.)
Wells Fargo (Cal.)	
Security Pacific (Cal.)	
Crocker (Cal.)	
First National Bank of Boston (Mass.)	

U.S. banks have faced extensive regulation not only because of the multiple sources of authority but also due to the large number of banks. There are almost 15,000 individual banks in the U.S. Informal discussions, as a method of solving international problems, are impossible among 15,000 banks, 50 state authorities and three federal authorities. In order to keep the rules uniform and to assist

U.S. foreign commerce, the federal government has taken the leading role in regulating the international activities of U.S. banks. American banks tend to be much more closely regulated than their Canadian counter-parts. But the extent of regulations has not hindered American banks because the regulations have been designed to promote U.S. international commerce and to make U.S. banks more competitive with foreign banks.¹

Banking in Canada is predominantly controlled by the federal government. A few banking functions - for example; as agent, issuer and purchaser in direct markets - fall under provincial jurisdiction² but these functions have had no direct bearing on international operations. Under Section 91 of the British North America Act 1867 the parliament of Canada was given exclusive legislative powers concerning the regulation of trade and commerce; banking, incorporation of banks and the issue of paper money; currency and coinage; bills of exchange and promissary notes; savings banks; and interest.³ The Canadian parliament subsequently enacted the Bank Act of 1871 which became a blueprint for future banking legislation and had lasting influence on the practices of Canadian banks.⁴ Parliament also passed the Bank of Canada Act 1934 which created a central bank. The Canadian Deposit Insurance

Act 1966-67 was passed to supervise deposit taking institutions and protect the depositor. By these three acts the Canadian parliament controls the chartered banks.

Although there is tight federal control of Canadian banks, there are fewer regulations controlling international activities than in the U.S. Theoretically this lack of controls should give the Canadian banks some advantages in the overseas markets but only if the freedom is used. The freedom that Canadian banks have is minimised by the positive nature of U.S. regulations and by the more aggressive attempts of U.S. bankers to circumvent, or utilize to the full extent, their banking regulations.

Concentration

"Size is the single most important factor in international banking."⁵ Extensive resources are needed to start up and operate foreign offices. Size is also essential to a leading position in the international markets. Eurocredit syndication management is a good example. This market has tended to gravitate into the hands of the major U.S. banks, the Canadian banks and certain major European banks.⁶ The trends in 1976 were that banks, wanting to become lead managers, must now initially underwrite a greater percentage

of the loan in their own portfolio.⁷ Smaller international banks are not able to take on these responsibilities. Another analyst, R. Thoman, argues that a bank needs at least \$15 Billion in assets in order to service the MNE. Smaller banks may unbalance their portfolio or not be capable of making large enough loans.⁸

The five Canadian banks and eleven of the fourteen U.S. banks had more than \$15 Billion in assets during 1977. Both countries have produced banks capable of competing in the international markets. In both banking systems concentration has been directly and indirectly influenced by home country banking regulations.

United States

American banking regulations have produced two types of large U.S. banks. The first type is based on a state wide retail branch system (similar to Canada) and the second is based on wholesale business in the large U.S. money centres. An important factor in this evolution is the variety of state laws concerning branching. Federal regulations require that national banks are subject to the branching laws of the state in which they operate.⁹ There are three basic varieties of branching laws as follows:

1) state-wide branching, 2) unit banks, 3) limited

branching. There is no inter-state branching. New York allows limited branching, Illinois allows only unit banking and California allows state-wide branching. Size has been most facilitated by branching in the state of California. California with its population of 25 million persons has produced four of the banks in the sample including the largest bank in the world. J. Kelly attributes their importance in international banking to their "overwhelming domestic assets".¹⁰ Bank of America concurs in its 1977 Annual Report, "California retail banking enabled it to become a world leader...and its present strength is still derived from California."

Size has also been assisted through the use of multi-bank holding companies. Marine Midland Banks Inc. and Bankers Trust New York Corporation are two banks which have grown via this process. A bank holding company in New York can own various banks, each with a limited branch network. In 1970 Marine Midland Banks owned 11 banks all across the state of New York. Each bank had a limited branch network from a high of 73 branches for the subsidiary in Buffalo to a low of 9 branches for its subsidiary bank in Jamestown. Thus Marine Midland was able to have an important subsidiary in the New York money market and at the same time still develop a state-

wide retail branch system.

Mergers and acquisitions have also assisted in the development of large U.S. banks. Of the fourteen banks in the sample only Bank of America, First National Bank of Chicago and First National Bank of Boston have not been significantly strengthened through mergers or acquisitions during the fifties and early sixties. Appendix B lists the mergers and acquisitions of the banks in the sample for the decades of the fifties and sixties.

Most New York and Chicago banks in the sample became large because they concentrated on wholesale business in the two most important commercial and financial centres. State regulations limited the Chicago banks to a "single" office and the New York banks to limited networks. But regulations did help the banks in a "back door" fashion. It limited competition from the large banks located in other American cities. Since the two centres were the two most important commercial centres in the U.S. and head office to many of America's future MNE's, the New York and Chicago banks monopolized this market. Although the major California banks have developed retail networks; they have also been able to develop a good wholesale business, especially during the fast commercial growth of California after World War II. Like

the New York and Chicago banks they have been protected from other U.S. banks by the laws prohibiting cross state branching.

Wholesale specialization by U.S. banks has led to some important developments in their structures. The banks have developed divisions which specialize in corporate clients. These divisions are generally subdivided into major departments which specialize in a certain industry. For example, J.P. Morgan & Co. has a corporate banking division divided into the following five departments:

Securities, Petroleum, Real Estate, Public Utilities and Mining/Construction. First Chicago Corporation has the Industrial department of its Corporate Banking division divided into 11 specialized industrial groups. Even the smaller Security Pacific Corporation has specialization in 11 types of industries.

This specialization in wholesale corporate business is very important in the international markets where large corporations have been the main customers. The banks in the U.S. have specialized in servicing the needs of large U.S. corporations and when these companies became MNE's, the U.S. banks exported their expertise abroad in order to service the world-wide needs of their customers. Wholesale specialization has also given the U.S. banks an advan-

age in project finance. The merchant bank subsidiaries of U.S. banks have been able to draw on the technical expertise of the bank's specialized departments in order to put together complex financial packages for the large industrial projects of the world.

Canada

Canadian banking regulations have helped to concentrate banking assets into five large banks, which are all ranked within the world's top sixty banks.¹¹ A number of key factors have contributed to this concentration. Under the Bank Act of 1871 and subsequent banking acts a new bank could only be chartered through a special act of parliament.¹² Political factors and parliamentary procedure made the process long and difficult. New banks also faced high entrance costs. In 1871 the initial subscribed capital was set at \$500,000. of which \$100,000. had to be paid before a bank could open.¹³ This barrier was strengthened in 1890 when the minimum paid-up capital was raised to \$250,000. and the capital had to be raised and a permit granted to commence operations within one year after a charter had been received.¹⁴

There has also been little competition from foreign owned banks. Foreign banks have never been allowed to branch in

Canada but prior to 1967 were allowed to set up subsidiary banks. But they still faced the high entrance costs and need for a special act of parliament. Two fully foreign owned banks operated in Canada during the post war era¹⁵ including a Dutch bank which in 1953 was the last to be granted a charter.¹⁶ During the sixties foreign residents also held between 20-25% of three of Canada's largest banks but this has diminished in the seventies. The 1967 Bank Act placed new restrictions when it stipulated that 3/4 of the directors must be Canadian citizens, ordinarily resident in Canada¹⁷, 3/4 of the shares must be held by residents of Canada¹⁸ and any single non-resident may only hold 10% of the shares.¹⁹ First National City Bank, which bought Mercantile Bank from its original Dutch owners in 1963, has subsequently divested ownership until its share is now about 24%.

Further concentration was facilitated by the liberal merger regulations. Mergers have always been evident among Canadian banks and include mergers in 1955 and 1960 which produced the second and fifth largest banks in Canada. Mergers were facilitated by "lack of legislation prohibiting mergers and legislation, which in fact may have encouraged them".²⁰ After 1900, mergers only needed the consent of cabinet on recommendation of the treasury board.

Between 1900 and 1926 twenty-seven of thirty-six banks disappeared in mergers. The 1967 Bank Act regulations concerning purchase of bank assets and amalgamation were also very liberal²¹, and final decision still rests in the hands of the cabinet.

The most important aspect of concentration in Canada concerns the type of large Canadian bank which has developed. Regulations have given the Canadian banks the right to branch anywhere in Canada or the world. This provision was contained in the original Bank Act of 1871 and was also contained in the Bank Act of 1967.²² Extensive branch systems have given each of the five Canadian banks a large retail deposit base. Since 1967 the deposits in chartered banks have been also manditorily covered with \$20,000. insurance per depositor.²³ Since there are many small retail depositors, the deposit liabilities of Canadian banks are fairly well covered by deposit insurance. Wayne Clendenning has described the situation as giving the Canadian banks a "unique domestic deposit base".²⁴ In the U.K. the banks have a widespread retail deposit base but no deposit insurance; while in the U.S. the banks have deposit insurance but few have a large retail deposit base.²⁵ Deposit insurance is limited to domestic deposits of \$20,000. or less. Therefore, a considerable percentage of the domestic

Liabilities of Canadian banks is covered by insurance. This means that in the event of a bank default, there is more money available to foreign currency depositors.²⁶ A concrete example of this situation is contained in the interbank market. The Canadian banks have found it very easy to grow in this market and it has accounted for a substantial part of their growth in international assets and liabilities. Canadian banks have been able to maintain themselves in the interbank market because their domestic strength kept them on the lowest tier of the eurocurrency market.²⁷ In other words, they obtained foreign currency deposits at the lowest possible rates.

Retail banking does not seem to have facilitated the development of specialized corporate banking divisions like those which developed in U.S. banks. Table 3.1 compares the 5 Canadian banks and 6 U.S. banks in terms of assets and retail branch networks.

Table 3.1

Retail Branch Networks (1978)

Bank	Total Assets	Domestic Branch Network
	\$Cdn. B	
Royal Bank	34.4	1,509
CIBC	32	1,729
Bank of Montreal	25.2	1,234
Toronto-Dominion	19.1	981
Bank of Nova Scotia	22.4	976
	\$U.S. B	
Bank America	82	1,092
Citicorp	77.1	308
J.P. Morgan	31.7	6
First Chicago	22.6	0
Bankers Trust Co.	23.5	209
Wells Fargo	15.4	336

With respect to their asset size, the Canadian banks have large domestic networks. Their retail concentration seems to have caused the slow development of corporate banking divisions and other industrial specializations. The Royal Bank did not create a special Corporate Division until 1974, the Bank of Montreal in 1976 and the CIBC in 1978. The slow development of specialized industrial divisions among the Canadian banks has inhibited them from competing in the international markets on project finance and loans to MNE's. The California banks are allowed state-wide branching and have developed branch networks but not

to the same extent as the Canadian banks. For example, the Bank of Nova Scotia is about $1/4$ the size of Bank of America in assets but has almost the same number of branches. Appendix A shows that their international assets both account for roughly $2/5$ of total assets. The difference in asset size seems to be accounted for by the difference in emphasis on domestic wholesale business.

Interest Rates and Reserve Ratios

There is an absence of home country control of reserves and interest rates on the international business of U.S. and Canadian banks. For both banking systems, the absence of controls lowers the costs of international business and increases the banks ability to compete in foreign markets. These benefits have had some different effects between U.S. and Canadian banks due to their different definitions of international business. The international business of Canadian operations consists of their foreign currency operations, most of which takes place in U.S. dollars. Financial controls on reserves and interest rates do not apply to the foreign currency business of Canadian banks whether this business takes place at head office or overseas. (see Appendix J) The U.S. reserve and interest rate controls apply only to their business in domestic offices.

Therefore, international business is attractive to both systems but only the Canadian system can receive those benefits via the head office. The U.S. banks must operate through their foreign branches and this seems to have been a contributing factor in the decentralization of their international operations.

United States

U.S. commercial banks must hold cash reserves on their domestic demand and time deposits but deposits in foreign branches are not subject to these requirements.²⁹ In foreign countries the majority of bank business is in U.S. dollars and U.S. dollar deposits in foreign countries are usually reserve free under host country regulations. Reserve free status has led to lower costs in overseas branches and has, therefore, been a crucial factor in the development of the Eurodollar market.³⁰ It is more profitable to lend to foreigners from the foreign branch than via the head office. This has increased the utility of foreign branches and subsidiaries.

Reserve free deposits are not only useful for overseas business but also as a source of funds for the U.S. parent. Prior to 1969 no reserves were required against loans or advances from overseas branches or foreign banks to the

parent.³¹ During the 1966 credit squeeze³² and again in 1969,³³ FRB Regulation Q effectively dried-up U.S. sources of funds so the banks turned to the Eurodollar market where they could bid freely for funds and then transfer them to the U.S. parent. But during the same period, the U.S. was attempting to fight its balance of payments deficit. FRB Regulation M was amended to require reserves on any advances, loans or assets purchased from foreign branches over a reserve free basis calculated in May 1969.³⁴

The new reserves on foreign advances or loans effectively eliminated the Eurodollar market as a source of new funds. But during the period when the foreign branches were a source of extra liquidity it gave a domestic advantage to those banks with overseas money-centre branches. Between 1966 and 1969 many U.S. banks went to London to set up a branch and this included two of the sample: Security Pacific and Crocker. Lending Eurodollars to head office was often the sole reason for operating a branch in London.³⁵ When London was cut off as a source of Eurodollars, the London branches of U.S. banks were compelled to develop independent foreign business.

FRB regulation Q prohibits the payment of interest on demand deposits and sets maximum rates on time and savings

deposits in the U.S.³⁶ The regulation applies only to U.S. banks and branches operating within U.S. Regulation Q effectively created interest differentials paid on deposits in U.S. banks at home and the rates paid on both domestic, commercial paper and the rates paid on deposits in foreign banks or foreign branches of U.S. banks.³⁷ The differential in the interest rates caused funds to flow out of U.S. banks to the Eurodollar market. The U.S. banks with London branches could offset their domestic loss with London deposits. Many U.S. banks without foreign branches had to set up a foreign branch to pursue this source of funds.³⁸ Lending Eurodollar deposits to head office was often the sole reason for operating a branch in London.³⁹

Canada

Reserve requirements as stipulated in the Bank Act and Bank of Canada Act have given some benefits to foreign currency operations by Canadian banks. The reserve ratios are only applicable to deposits booked in Canadian currency. There were no mandatory reserve requirements on foreign currency deposits but the Bank Act of 1954 stated that "the bank shall also maintain adequate reserves against liabilities payable in foreign currency".⁴⁰ The Bank Act of

1967 went a step further and stated ~~that~~ the "bank shall maintain adequate and appropriate assets against liabilities in foreign currency".⁴¹ The proposed banking legislation of 1978 would also place 3% reserves on foreign currency deposits placed by Canadian residents. Nevertheless, these vague reserves did not lower the benefits of foreign currency operations.

The lack of reserve requirements increased the competitiveness of the Canadian banks in foreign markets, especially the U.S. In the U.S., where all Canadian banks have invested heavily, the Canadian banks can lend at a lower effective rate of interest with respect to U.S. banks. U.S. dollar deposits are booked in Canada at head office and are, therefore, reserve free. These funds can be advanced to U.S. agencies of Canadian banks and "advances" do not require U.S. reserves. Canadian banks can also deposit the U.S. dollars in third countries where they are usually reserve free because of their foreign currency status. The banks' costs are, therefore, lower because a percentage of the funds does not have to be kept idle or in low yield investments. Since the costs are lower, the banks can either lend at lower rates or raise their profit margin. If the banks lend these funds in the U.S. market, they usually lend at the going rate to prime

corporate customers. But the loans are attractive to U.S. borrowers because the Canadian banks do not demand compensating balances.

The types of reserve requirements and changes in reserve ratios have affected the volume of foreign currency business, especially in the U.S. call-loan market. The Bank Act 1954 raised the cash reserve ratio on Canadian dollar deposits to "not less than 8% or as fixed by the Bank of Canada".⁴² In 1955 the chartered banks subsequently made an agreement with the Bank of Canada to maintain a liquid asset ratio of 15%.⁴³ This consisted of 8% cash reserves and 7% secondary reserves. Secondary reserves are treasury bills and call loans to investment dealers. Prior to this period, banks generally kept their cash reserves at a much higher figure than was mandatory. But the new ratio's "imposed rigidity on banking operations so the banks had to adjust other liquid assets to offset the limiting affects of the reserves".⁴⁴ Under the new regulations, the banks kept their cash and secondary reserve ratios as close to the minimum as possible. The Canadian banks then increased their call loan activity to investment dealers in New York. These loans were an extremely liquid asset which could be instantly called and converted into Canadian cash for domestic liquidity purposes. This conversion

is usually covered in the forward market to reconvert to U.S. dollars at some future date. During the period of the forward contract the funds are used as part of secondary reserves.⁴⁵ This bank policy is reflected in the growth of foreign currency call loans between 1955 and 1960 as shown by Table 3.2. As a percentage of foreign currency assets, foreign currency call loans jumped from 15.7% in 1955 to 29.2% in 1957 where it remained until 1960. Call loans in New York dropped substantially in 1962 and Canadian banks switched their lending to the growing eurodollar market. Paul Einzig attributes the poor New York stock market as helping to reverse the flow of funds.⁴⁶ Klopstock maintains that it was the increased attractiveness of other forms of liquidity such as euro-dollar deposits and U.S. federal funds.⁴⁷ The margins in the call loan market were low but most authors agree that it was primarily used as a good source of U.S. dollar liquidity.

Controls on Foreign Investments

This section concerns the regulation of the types and locations of direct foreign investment by U.S. and Canadian banks. Although U.S. banks have more controls, they do not seem to have been hindered. The U.S. regulations

Foreign Currency Call Loans

	Foreign Currency Call Loans as a percentage of Foreign Currency Assets	Foreign Currency Call Loans
	%	\$millions
1950	12.5	100
1955	15.7	177
1956	23.4	347
1957	29.2	576
1958	28.3	613
1959	29.7	711
1960	29.9	814
1961	24.	844
1962	17.6	684
1965	14.5	732
1970	4.6	623
1975	1.4	427

Source

Bank of Canada, Bank of Canada Review,
various issues.

have not tended to be negative and the U.S. banks have simply manipulated them to their advantage.

United States

The Federal Reserve Act of 1913 allowed national banks to branch overseas but the banks had to obtain prior approval from the FRB.⁴⁸ State member banks received the same permission under the National Banking Act of 1933.⁴⁹ State chartered banks in both California and New York must also receive approval from their respective state banking authorities.⁵⁰ The CC has also shown interest and, through its "International Operations Regulation" of 1964, has specified that national banks must notify the CC; but they have no authority to stop a bank.⁵¹ The FRB relaxed its position in 1963 by changing Regulation M to allow a bank to establish branches number 2, 3, 4, etc. in any country by just notifying the FRB thirty days in advance.⁵²

Overseas branching of banks has been unevenly affected by the various state attitudes towards the presence of foreign banks in their state. New York banks have had some advantage because branches of foreign banks have been allowed in New York since 1961 on a reciprocal basis⁵³ and agencies (no deposit acceptance) have been allowed since the 19th century. California allows no foreign

branches but, in similar fashion to Canada, will allow locally incorporated foreign banks. Illinois prohibited foreign branching by state banks until 1970 but national banks in the state could branch overseas under their nationally controlled charter.⁵⁴ Illinois opened the door to foreign banks in 1973 but the door soon closed again after one year because the authorities decided to wait for new national banking legislation.

American banks have also moved overseas through investments in subsidiaries. A 1916 amendment to the FRA allowed national banks to invest in U.S. banks or corporations principally engaged in international or foreign banking. Investments of this nature could not exceed a total of 10% of paid in capital stock and surplus. Prior to an investment of this type, the bank had to enter into agreement with the FRB to operate under FRB control. These subsidiaries were, therefore, called "Agreement" companies. The companies could operate through branches or subsidiaries in foreign countries.

The "Edge Act" amendments to the FRA, in 1919, allowed the organization of overseas banking organizations for the purposes of not only financing foreign trade but also engaging in foreign financial activities.⁵⁵ These subsidiaries were to be federally chartered and directly under

the control of the FRB. EAC's could branch overseas and invest in subsidiaries not engaged in the general business of buying or selling goods. Again this investment was limited to 10% of capital and surplus, except if the foreign subsidiary was a bank and then the investment could be 15%. Section 25 of the FRA was amended again in 1966 to allow member banks to own directly stock in foreign banking organizations. This change came only after the CC had already ruled that the activity was permissible for national banks.⁵⁶

Banks have also been able to move overseas through holding companies. The 1956 Bank Holding Company Act (BHCA) did not stipulate regulations concerning foreign ownership and did not cover one bank holding companies.⁵⁷ In 1956 one bank holding companies tended to be small and of little significance.⁵⁸ In 1968 Citibank set a precedent as the first large bank to become a one bank holding company. Theoretically, the foreign activities of these holding companies were unrestricted. But a 1971 amendment to the BHCA gave the holding companies the same foreign rights and responsibilities as Edge Act corporations.⁵⁹ The holding companies are now subject to FRB control with respect to foreign activities. Most large banks, including all of the

sample, formed a holding company to operate the bank during the late sixties. The holding companies have been used to diversify, grow and penetrate across state lines and foreign borders.

The U.S. authorities have authority over where American banks may set up foreign branches or subsidiaries. The FRA gives the power to the FRB to approve or reject applications for foreign branches.⁶⁰ "Agreement" corporations as stipulated by the 1916 amendments and EAC's must also receive FRB permission to branch or invest in overseas subsidiaries. Bank holding companies were free of these restrictions until the 1971 amendments which brought their activities into line with EAC's. Since 1964 the national banks have also been required to notify the CC of their intention to branch.⁶¹ This does not mean the CC can prohibit a particular branch but underlies the growing interest of the Bureau of the CC.⁶² State chartered banks in New York and California also require permission from their SBA.⁶³

Chart 3.1 illustrates the various ways in which a bank may invest overseas. The Bank of America has 138 foreign branches and representative offices which are an integral part of the bank. Second, Bank of America has many overseas financial subsidiaries via its Edge Act

Chart 3.1

Bank America Corporation Major Operating Subsidiaries

Source: Bank America Corporation. Annual Report, San Francisco, 1976.

corporations. This includes a major investment in the Banca d'America e d'Italia which was made prior to 1966 when U.S. banks were given direct authority to invest in foreign banks. Third, the bank also directly owns foreign banking stock. Fourth, Bank America Corporation, the parent holding company which was set up in 1968, also controls overseas subsidiaries. For example, its domestic subsidiary, Finance America Corporation, owns a Canadian subsidiary with the same name.

Canada

Canadian banks have no restrictions as to where they may invest in a foreign branch or subsidiary. The only restrictions placed on foreign investment are those made by the host country. With respect to subsidiaries, the banks are basically unrestricted in their ownership of foreign corporations unless ownership of the shares and their voting rights allows the bank to control more than 50% of the votes in a Canadian corporation in which together the foreign corporation and the bank have paid over \$5,000,000. for such shares.⁶⁴ If the value is more than \$5,000,000. then control of votes is limited to 10%.⁶⁵ Therefore, the banks are allowed unlimited investments in foreign banks and financial type institutions - for example, banking sub-

sidiaries, merchant banks, joint venture banks, leasing companies, factoring companies etc., "as long as the company has only minority interests in Canada".

The only limitation to overseas investments is related to the lack of reciprocity. Foreign banks may not branch in Canada. Prior to 1967, they were permitted to apply for a Canadian charter or buy a Canadian bank. Since 1967 foreign residents, including foreign banks, have been prohibited from owning more than 10% of the shares of a Canadian bank. This law inhibits Canadian banks from establishing branches and/or subsidiaries in countries which demand reciprocity. But Japan and Switzerland seem to be the only two centres where Canadian banks would very much like to invest but are prohibited from doing so.⁶⁶ Even without reciprocity, Canadian banks have been able to invest in most of the important commercial and financial centres in the world.

Control of Foreign Activities

In the domestic environment of both countries, the banks of both systems are generally restricted to a very rigid definition of the business of banking. Foreign branches of both U.S. and Canadian companies are integral parts of the parent company and are restricted to the same banking

operations as domestic branches. Both U.S. and Canadian banks have circumvented these laws via subsidiaries. This is especially true in the international markets where subsidiaries of U.S. and Canadian banks are subject to very few home country regulations. The U.S. banks have used this method of expansion and diversification to a greater extent than the Canadian banks.

United States

Prior to August 1962, foreign branches of U.S. banks had to operate within the confines of U.S. domestic banking regulations. This often prohibited them from participating in the normal banking practices of host countries.⁶⁷ The outward rush and rise in activity of U.S. banks pressured the government into changing Regulation M which deals with the activities of foreign branches.⁶⁸ The revised regulation allowed foreign branches to 1) exercise powers that are usual abroad, and 2) underwrite and deal in host government obligations.⁶⁹ The deposits in these branches are not covered by Federal Deposit Insurance⁷⁰ and they are not required to hold reserves on deposits in foreign branches. The revised regulation M treats the foreign branches more like foreign banks and removes their constant fear of violating U.S. federal law.⁷¹ But in other areas, the

foreign branches are still not permitted to operate outside commercial bank activities. The Glass-Steagall Act of 1933 prohibits the branches from investment bank activities. It prohibits them from dealing in securities and stocks unless the bank is purchasing them for a customer.⁷²

Foreign branches of U.S. and Canadian banks are confined to the business of banking. The definition of banking is not the same in the U.S. and Canada. U.S. branches may engage in some activities prohibited Canadian branches and vice versa. U.S. banks have had an advantage in the areas of leasing and factoring. In 1963 both leasing and factoring were approved by the Comptroller of the Currency as "appropriate banking activities".⁷³

Leasing began domestically through head offices and branches but eventually specialized subsidiaries were set up by the new parent holding companies. Many U.S. banks now have leasing subsidiaries overseas. Chemical has the largest network with 19 companies in 13 countries. Security Pacific has leasing offices in 6 European countries. U.S. banks entered the factoring field by purchasing a local factoring company, but some just hired executives with factoring experience. Today Bank America, Bankers Trust, Continental, Citicorp and First National Boston have overseas factoring subsidiaries and affiliates. First National

Bank of Boston began its overseas factoring in 1960 through an Edge Act subsidiary and presently has factoring affiliates in 23 countries. Through specialization even the smaller U.S. banks have been able to compete in this market.

Restrictions on types of banking activities in foreign branches have been circumvented via subsidiaries. Through subsidiaries of Edge Act Corporations (EAC) and Bank Holding companies, U.S. banks are able to participate in international investment banking and non-banking financial activities.

EAC's are permitted a wide range of activities but are not allowed to carry on domestic operations unless they are "incidental to or for the purpose of carrying out transactions in foreign countries".⁷⁴ But overseas their restrictions are few. EAC may "engage in international or foreign banking or in other international or foreign financial operations either directly through branches or through locally incorporated subsidiaries".⁷⁵ They have been described as "elementary forms of investment or merchant banks". EAC's are useful for acquiring subsidiaries in those countries - e.g. Canada - where foreign branches are not allowed or require reciprocity.⁷⁶ Section 25 allows the EAC's extensive investment bank activities including underwriting, selling and distribution of securities.⁷⁷ EAC's have

specialized in such areas as follows: investments in foreign banks, LDC project venture capital, leasing subsidiaries, equity investments, term financing with various options, factoring, and underwriting.⁷⁸

The most important type of overseas investment by U.S. banks has been in merchant banks. Merchant banks are international investment banks usually incorporated in a major financial centre, particularly London. Their basic activities include Euroloan syndications, Eurobond underwriting, corporate finance and other fee generating services.

In 1968 U.S. banks began setting up merchant bank subsidiaries in London in order to bring their customers to the international capital markets because they were cut off from New York by U.S. laws concerning the export of capital.⁷⁹ In 1978 of the sample banks, only Crocker and Security Pacific did not have a London based merchant bank.

One of the most significant areas into which merchant banks have moved is the underwriting of Eurobonds. In 1978 the merchant bank subsidiaries of Bank America, Chase Manhattan, Bankers Trust, First Chicago, Continental Illinois, Chemical, Citicorp and Manufacturers Hanover were all engaged in underwriting and managing eurobond issues. The last two were among the world's top 30 managers. Their ability to break into this market was their strong

relationship with the new U.S. based corporate issuers which had been cut off from the New York market.

These institutions are also useful for syndicating Eurocredits, and project finance. Usually the merchant bank subsidiary will manage the syndication and the parent bank will buy a participation. For example, Bankers Trust International Ltd. managed the U.S. \$1.5 billion medium term loan to the U.K. government in 1978. The Bankers Trust Company bought a participation in the loan. The merchant bank subsidiary acts as a specialized institution to coordinate and market the syndication similar to an investment bank.

U.S. banks have also moved into foreign activities through holding companies. Multibank holding companies under the 1956 Act were restricted to the "business of banking" and put under FRB supervision.⁸⁰ In the late sixties, the large banks began changing to one bank holding companies in order to diversify into related operations. 1971 amendments included one bank holding companies under the BHCA and gave the FRB the authority to decide on legitimate activities. But the FRB still allowed holding companies to participate in many non-bank activities such as factoring, leasing, consumer finance companies.⁸¹ Through subsidiaries in these new areas of finance, the

banks have gained expertise which they have exported abroad via subsidiaries.

Canada

Generally speaking, the foreign branches of Canadian banks are restricted to the same activities as domestic branches in Canada. For example, they have not been allowed leasing and factoring in Canada so they are not supposed to lease and factor through foreign branches. Where the regulation is hazy, the banks are more likely to take advantage of it overseas. For example, the banks are not restricted from term loans in Canada but the "business of banking" in Canada has been generally interpreted as meaning short term lending. Domestically the banks attempted to move into term lending during the fifties but each time the Bank of Canada used moral suasion to stop this venture.⁸² The growth of term lending in the domestic market was also prevented through interest rate controls on loans.⁸³ During the early sixties term loans represented only 13% of Canadian dollar loans to Canadian business but in 1962 34% of foreign currency loans were term.⁸⁴

Two other new forms of bank finance which became popular during the sixties were leasing and factoring. Neither product has been viewed as a "banking" operation in Canada.

Nevertheless, in the domestic market the banks began to buy into both types of companies under section 76 of the Bank Act which permits them to own 50% of a company, if the initial investment is less than \$5 million or 10% of a company if the investment is over \$5 million.⁸⁵ Canadian banks could have made major investments in foreign leasing or factoring subsidiaries but have not yet ventured into this area.

Canadian banks are not allowed to engage in trust activities through their branches in Canada. But overseas they are unrestricted. Canadian banks have more trust subsidiaries than any other type of foreign subsidiary. The five Canadian banks have trust companies in New York, three are in London and numerous others in major off-shore financial centres like Nassau and the Caymans. They are all usually adjacent to a branch, agency or bank subsidiary of the same bank.

Canadian banks are much freer than U.S. banks to engage in investment banking through their branches. Canadian banks have had the right to deal directly in securities since 1876.⁸⁶ The Bank Act gives the banks the power to "acquire, deal in discount and lend money and make advances of securities".⁸⁷ Domestically the banks "buy treasury bills, bonds and other investments for their

own accounts; they act as members of underwriting groups for bond and equity issues; act as agent for customers and play a major role in government issues".⁸⁸ They have underwritten government issues - federal, provincial and municipal - since the 19th century but have not been extensively engaged in the underwriting of corporate issues except in association with investment dealers in order to add financial strength to the underwriting.⁸⁹

Canadian banks have also been slow in pursuit of international merchant banking business. In the Eurobond market, Canadian banks have only participated through minority investments in joint venture banks. There is only one instance of a Canadian bank participating directly in the Eurobond market. In October 1977 the Bank of Nova Scotia directly co-managed a U.S. \$35 million floating rate note issue by Beogradska Banka, Yugoslavia. In June 1978, the CIBC made a small breakthrough by investing in 5% of a London based merchant bank in conjunction with an old British merchant bank, Hambros. Ltd. Three U.S. banks also began their international merchant banking activities through a joint venture with a British merchant bank. Royal Bank also has plans to open a subsidiary merchant bank in London in 1979.

Table 3.3

Number of Eurocredit Syndications Managed
or Co-Managed

	1978	1977	1976	1975	1974	1973
Chase Manhattan	96	72	57	54	21	10
Citicorp	85	73	58	50	25	15
Bank America	69	55	43	54	21	10
Bank of Montreal	62	38	21	17	11	7
Manufacturers-						
Hanover	61	49	44	29	29	6
Royal Bank	56	34	21	18	7	4
Chemical Bank	56	50	31	22	16	2
Canadian Imperial						
Bank of						
Commerce	55	27	17	22	2	
Toronto Dominion	49	25	19	18	9	4
Banker's Trust	49	27	31	20	10	12
J.P. Morgan	48	36	33	31	20	6
Bank of Nova						
Scotia	36	24	22	8	3	
Security Pacific	27	37	23	7	1	1
First Chicago	23	37	22	27	8	7
Wells Fargo	17	36	33	18	4	6
Continental-						
Illinois	15	22	18	11	8	11
Marine, Midland	15		14	8	2	1
First National Bank						
of Boston		13	13			
Crocker			12	12	3	1

Sources

"The Top Seventy-Five." Euromoney, September 1976, pp. 25, 26.

"Lead Managers, 1976." Euromoney, April 1977, pp. 46, 47.

"Eurocredit Manager Rankings." Euromoney, February 1979, pp. 29, 30.

Table 3.4

Number of Eurocredit Syndications

Lead Managed and Co-Managed

Bank	<u>Lead Managed</u>		<u>Co-Managed</u>	
	1978	1977	1978	1977
Chase Manhattan	64	32	32	40
Citicorp	57	39	28	34
Bank America	39	18	30	37
J.P. Morgan	27	16	21	20
Manufacturers-Hanover	27	9	34	40
Bank of Montreal	25	2	37	36
Royal Bank	23	3	33	31
Bankers Trust Co.	21	8	28	19
Chemical Bank	19	8	37	42
Canadian Imperial Bank of Commerce	10		45	27
Toronto Dominion	9	1	40	24
First National Boston	8			13
First Chicago	7	10	16	27
Bank of Nova Scotia	6		30	24
Wells Fargo		14	17	22
Continental Illinois		2		20
Security Pacific			27	37

Source

"Eurocredit Manager Rankings." Euromoney,
February 1979, pp. 29, 30.

The London based merchant banks of U.S. banks are used not only to underwrite Eurobonds but also as a centre of their project financing and Eurocredit syndication. Canadian banks have also lagged behind in these two fields. Tables 3.3 and 3.4 lists the number of Eurocredits which Canadian banks have managed. The figures in Table 3.3 represent the combined totals of lead and co-management during the years 1973-1978. Table 3.4 separates lead and co-managed loans for the years 1977-1978. Table 3.3 shows that Canadian banks for many years have lagged behind their U.S. competitors but in 1978 made a great leap forward. Table 3.4 shows that most of this leap forward can be accounted for by their new importance as lead managers, especially in the case of the Royal Bank and Bank of Montreal. Co-management is generally little more than a glorified participation to give the big banks a little more prestige and a larger percentage of the front-end fees. Until 1978 Canadian banks generally have seemed content to let the U.S. banks lead the way. It is possible that the Canadian banks were slow in this market because they lacked a merchant bank type facility. The Bank of Montreal gives credit to its growth in the market to the establishment of a special loan syndication unit in London in 1977.⁹⁰ It is not a separate subsidiary but it consists

of a group of specialists in London operating like a merchant bank. In early 1978 the CIBC also set up special syndication units in Toronto and London, England. The Bank of Montreal, Royal Bank, CIBC and Toronto-Dominion have recently also created project finance groups. Project finance groups are essential to Eurocredit syndications because so many of the loans are linked to major industrial projects.

Supervision

In almost every area of international banking the U.S. banks are much more supervised than Canadian banks but this has not resulted in significant differences in activities. There are, however, a number of intangible areas, where Canadian banks could act radically differently from their U.S. counterparts but it is difficult to test because the data is not readily available.

United States

The foreign branches and subsidiaries of U.S. banks are subject to multiple lines of inspection and supervision. The CC has the authority to examine the foreign branches of national banks and the FRB has the authority to examine the foreign branches of state banks plus the international subsidiaries of all FRB member banks. The National Banking

Act 1933 brought all state member banks and their foreign branches under the CC's supervision. The foreign branches of New York state chartered banks were examined periodically during the post war years by the state banking department but this was a joint examination with the Federal Reserve Bank of New York.⁹¹ It was no extra work for the banks since the same information had to be supplied to the FRB. The California authorities also maintain some continuous observation of its banks.⁹² Nevertheless, federal regulations are the important factor in the foreign branch operations of state banks.

In 1964 the CC issued its International Operations Regulations, and began an effort to more intensively supervise international operations. This included the setting up of a special corps of bank examiners to supervise the international branches of U.S. banks.⁹³ This supervision has gradually expanded. In 1972 six examiners were permanently stationed in London to examine the 23 branches in that important financial city.⁹⁴ The CC now has 150 examiners trained in international finance and since 1972 has annually sent 116 on missions abroad. Their examination includes a combination of technical credit analysis and subjective experience factors.⁹⁵ The extent of examination has been increased due to the increasing significance of international lending. Prior to

1974 the examiner had autonomy in his judgements but the authority now lies in a larger committee which draws on more numerous sources of information.⁹⁶ The authority of U.S. agencies over the foreign branches was modified in 1967. Prior to 1967 it could demand that a U.S. bank "cause its foreign branches to comply" but this was coming too close to extraterritoriality.⁹⁷ In 1967 the law was changed to demand that head office comply with demands made by the FRB concerning the operations of its foreign branches.⁹⁸

The inspection process may have significant impact on a bank's international business. Country loans are evaluated by the CC according to liquidity and soundness. The inspection committee weighs all "country risk" factors such as social, political, and economic considerations. The loans are then categorized as 1) Pass, 2) Especially Mentioned, 3) Substandard, 4) Doubtful, 5) Loss. A resultant black listing may significantly impede the borrowing ability of a country.⁹⁹ Many loan officers have given up second guessing and are phoning the CC's office for final advice on risky countries. This process has far reaching implications with the U.S. government's ability to control loans to specific countries.

The U.S., government also controls the amount of money which their banks may lend to any single borrower. The National Banking Act of 1933 revised Sections 23 and 24 of the FRA to stipulate that no single borrower could be loaned, at any one time, more than 10% of the capital stock and surplus of the member bank.¹⁰⁰ Affiliates of a single unit were together allowed to borrow 20% of the capital stock and surplus of a bank. This law applies equally to branch, EAC and Bank Holding Company loans. It is severely restrictive in light of the size of modern MNE's and sovereign risk borrowers. A sovereign borrower receives the same limitations and this can be restrictive in countries where loans are guaranteed by the government.

Table 3.5 lists the amounts of capital and surplus for each of the 14 U.S. banks in the sample. According to these figures, Bank America's lending limit is \$151.7 million and Crocker's lending limit is \$41 million. Together the top 14 U.S. banks are limited to \$1,092 million to any single borrower. This figure is not high considering the cumulative amounts of loans made to government borrowers in the past few years. The CC is the judge as to whether or not the benefits of the loan accrue to a sovereign government.¹⁰¹ LDC's and/or socialist countries with government run

Table 3.5

The Capital and Surplus of Major U.S. Banks

<u>Bank</u>	<u>Capital and Surplus</u>
Bank of America	1,517
Citibank	1,758
Chase Manhattan Bank	1,239
Morgan Guaranty Trust Co.	768
Manufacturers Hanover Trust Co.	762
Bankers Trust Co.	647.
Chemical Bank	660
Continental Illinois	750
Security Pacific National Bank	619
Wells Fargo Bank	394
Crocker National Bank	416
Marine Midland Bank	363
First National Bank of Boston	287
First Chicago Corp. ^a	<u>749</u>
Total	10,929

Note

^astatistics not available for the bank

Source

Annual Reports

economies are hit by this regulation. The CC must decide, if in the final analysis, the benefits really accrue to the government. If this is so, then loans obtained by that country are classified as going to a single borrower.

Canada

The supervision of the international activities of Canadian banks is very lax and ineffective. The Bank Act is very general concerning this supervision. The cabinet on recommendation of the Minister of Finance appoints an Inspector General of Banks to carry out supervision under the Bank Act.¹⁰² The powers of the Inspector General are very broad but only vaguely specified. Section 65 specifies that he should ascertain that "the bank is in sound financial condition".¹⁰³ The inspector has right of access to all bank information¹⁰⁴ and even broader investigation powers as given to commissioners under the Inquiries Act.¹⁰⁵ But beyond that there is little advice on how or when to supervise the international activities of Canadian banks. Section 105 stipulates that "the banks shall from time to time and in such manner as the Minister prescribes make a return to the Minister of its assets and liabilities that are valued or payable in foreign currencies".¹⁰⁶ The Bank Act provides the Inspector General with vague powers to collect information

but sets down no real methods of supervision. Canadian banks have only recently been compelled by the anti-inflation board to differentiate between their reporting on international versus domestic activities. E.W. Clendenning asserts that in many respects "the banks themselves have been given prime responsibility of ensuring the on-going viability of their international banking operations".¹⁰⁷

Generally the Canadian banks supervise their own sovereign risk loans. Each bank seems to set its own country limits. For example, the Toronto-Dominion Bank has no more than 2% of its loans with any single country except the U.S. and the U.K.¹⁰⁸ The Inspector General's department keeps an informal watch on loans to extremely "risky" countries such as Zaire and Peru. According to a spokesman for the Inspector General's Department, the department has warned the banks concerning loans to two specific developing countries.

The Canadian banks are also unrestricted in the amounts they may lend to any single borrower. Therefore, the Canadian banks have the authority to make secret large private placements. This secret lending ability gives the Canadian banks an advantage over the U.S. banks which generally are compelled to sell participations to other banks in order to raise the size of the loan. It also gives the Canadian banks much more flexibility in

lending to borrowers from socialist countries. U.S. banks seem to be slowing down in their lending to Eastern Europe while Canadian banks, especially the Bank of Montreal, are becoming important managers of loans to Eastern Europe.

Conclusions

U.S. and Canadian regulations have indirectly assisted in creating big banks but they are generally of two different types. The large U.S. banks have been isolated in important commercial and financial centres and their growth has been through wholesale banking and specialization in doing business with large U.S. corporations. Wholesale specialization has been good preparation in order to compete for the international business of U.S. MNE's. The Canadian banks have been slow in developing similar expertise because they owe their size and strength to their extensive retail branch network. The Canadian banks have only recently begun to develop special corporate banking divisions specifically oriented towards the large industrial customers. But the Canadian retail base must not be disregarded because it has given the Canadian banks credibility and strength in the interbank market. Canadian banks have used their international interbank

assets and liabilities as a strong base from which to pursue other more lucrative forms of international banking.

The differences in reserve ratio and interest rate controls have had only minor influence on internationalization. The fundamental difference is that for Canadian banks it is foreign currency which is free of controls while for U.S. banks it is the business from foreign offices which is free of controls. Therefore, Canadian banks can transact their international business from head office while U.S. banks must do so from a foreign branch or subsidiary. But since the differentiating between foreign branch and head offices business is merely a mechanical procedure of sourcing funds, it would not seem to give any advantage to Canadian banks.

Reserve ratio and interest rate controls have most impact on domestic banking. Canadian residents swap their domestic deposits into foreign currency deposits in order to avoid controls on Canadian currency. U.S. banks have used their London branch as a source of liquidity for the domestic market to avoid domestic controls.

In both types of foreign investments and types of foreign activities, the U.S. banks are more closely regulated. Canadian banks have very few controls concerning

2

their overseas investments, and activities but have been very hesitant to move aggressively into new fields. The U.S. banks have aggressively worked by the letter of the law investing in many types of specialized subsidiaries and leading in the introduction of new types of international banking. The U.S. controls have not inhibited but only served to set the pattern of U.S. international banking. The conservative Canadian bankers have not used their greater freedoms to lead in international banking.

In general, U.S. banks are much more regulated in their international activities than Canadian banks. But the differences in regulations have not directly led to major differences in the internationalization of U.S. and Canadian banks. Over the past two decades, international banking has consisted of various types of international business. Both U.S. and Canadian banks do not seem to have been hindered by home country regulations in the pursuit of this business. U.S. banks have not been hindered by more extensive regulations because the regulations are generally of a positive nature and because U.S. banks have been the leaders in introducing these new forms of international business.

U.S. banks are much more extensively supervised

than Canadian banks but the differentiating effects are not clear. U.S. banks are more closely supervised with respect to size of loans and end users. For example, theoretically the U.S. authorities could control the amounts and the borrowers in Eastern Europe. The Canadian banks are only quietly and informally supervised but in their typically conservative style do not seem to maintain portfolios which are radically different from the U.S. banks. Banks from both countries emphasize loans to customers in western industrialized countries.

Notes

1. Regulation K of the Federal Reserve Board specifically states that these are the purposes that created EAC's. Baker, American Banks Abroad, p. 37.
2. Economic Council of Canada, Efficiency and Regulation, p. 55.
3. Canada, Department of Justice, B.N.A. Acts, p. 25.
4. Binhammer, Money and Banking, p. 70.
5. Kelly, Bankers and Borders, p. 91.
6. Liddell, "Syndicated Eurocredits," p. 1222.
7. Ibid., pp. 1221-1223.
8. Thoman, "Serving the MNC Market," p. 96.
9. Ritter, Money, p. 206.
10. Kelly, Bankers and Borders, p. 91.
11. "The Top 300," The Banker, pp. 103-139.
12. Binhammer, Money and Banking, p. 70. and Canada, Bank Act, R.S., C. B-1, S.8.
13. Binhammer, Money and Banking, p. 70.
14. E.P. Neufeld, Financial System, p. 97.
15. Economic Council of Canada, Efficiency and Regulation, p. 54.
16. John Fayerweather, Mercantile Bank, p. 51.
17. Canada, Bank Act, R.S., C. B-1, S.18(3).
18. Ibid., S. 53(1).
19. Ibid., S. 53(2).
20. Neufeld, Financial System, p. 97.

21. Canada, Bank Act, R.S., C. B-1, S.99, 100, 102.
22. Ibid., S.75(1a).
23. Canada, Deposit Insurance Corporation Act, R.S., C. C-3, S.9(a), 13(2).
24. Clendenning, Eurocurrency Markets, p. 140.
25. Ibid., 141.
26. Ibid.
27. Ibid.
28. United States' financial policies as they affect internationalization have been already analyzed extensively elsewhere. The purpose of this section is, therefore, to highlight only those points relevant to the paper. For more extensive analysis, see Clendenning, The Eurocurrency Markets; Robinson, Multinational Banking; or Swoboda, "Multinational Banking."
29. Robinson, Multinational Banking, p. 121.
30. Kelly, Bankers and Borders, p. 100.
31. Clendenning, The Eurocurrency Markets, p. 29.
32. Main, "Real International Bankers," p. 484.
33. Regulation Q prohibits the payment of interest on demand deposits and sets maximum rates on time and savings deposits. Regulation Q was not altered to follow rising interest rates on the eurodollar market.
34. Clendenning, The Eurocurrency Markets, p. 29.
35. Robinson, Multinational Banking, p. 274.
36. Clendenning, Eurocurrency Markets, p. 20.
37. Kelly, Bankers and Borders, p. 94.
38. Ibid.

39. Robinson, Multinational Banking, p. 274.
40. Canada, Bank Act 1954, C. 48, S. 71(4).
41. Canada, Bank Act, R.S., C. B-1, S. 72(7).
42. Canada, Bank Act 1954, C. 48, S. 71.
43. Bank of Canada, Annual Report 1955, p. 16.
44. Neufeld, Financial System, p. 106.
45. Galbraith, Canadian Banking, p. 305.
46. Einzig, Eurodollar System, p. 41.
47. Klopstock, "Foreign Banks in U.S.," p. 152.
48. Federal Reserve Act, Dec. 23, 1913, Sec. 25.
49. The Banking Act, June 16, 1933, Sec. 5(b).
50. Stuart W. Robinson, Multinational Banking, p. 43.
51. Ibid., p. 42.
52. Ibid., p. 41.
53. Robin Pringle, "American Banks Overseas," p. 776.
54. Robinson, Multinational Banking, p. 44.
55. James C. Baker, American Banks Abroad, p. 49.
56. Kelly, Bankers and Borders, p. 86.
57. Lees, International Banking and Finance, p. 30.
58. Hutchinson, Money and Banking in U.S., p. 76.
59. Lees, International Banking and Finance, p. 31.
60. Federal Reserve Act, Dec. 23, 1913, Sec. 25.
61. Robinson, Multinational Banking, p. 42.
62. Ibid.

63. Ibid., p. 43.
64. Canada, Bank Act, R.S., C. B-1, S.76(2).
65. Ibid., S.76(2, 11).
66. Canada, Senate of Canada, Committee on Banking, Trade and Commerce, Proceedings, Second Session, Thirtieth Parliament, 1976-77, Issue No. 25, p. 7.
67. Lees, International Banking and Finance, p. 21.
68. Kelly, Bankers and Borders, p. 85.
69. Ibid.
70. Robinson, Multinational Banking, p. 121.
71. Ibid., p. 184.
72. Canadian Bankers Association, As Others See Us, p. 12.
73. Shay, "High Risk Financing," p. 152.
74. Federal Reserve Act, Dec. 24, 1919, Sec. 25(a).
75. Ibid.
76. Brunsden, "The Edge Act," p. 149.
77. Federal Reserve Act, Dec. 24, 1919, Sec. 25(a).
78. Baker, American Banks Abroad, p. 76.
79. Mendelsohn, "Eurobond Survey," p. 1241.
80. Martin Mayer, The Bankers, p. 385.
81. Cambridge Research Institute, Trends, p. 116.
82. Bank of Canada, Annual Report 1957, p. 17.
83. Canada, Royal Commission on Banking, Report, p. 124.
84. Ibid., p. 138.
85. Canada, Bank Act, R.S., C. B-1, S.76(1).

86. Binhammer, Money and Banking, p. 105.
87. Canada, Bank Act, R.S., C. B-1, S.75(1).
88. Canadian Bankers Association, As Others See Us, p. 11.
89. Ibid., p. 13.
90. Bank of Montreal, Annual Report, 1977.
91. Robinson, Multinational Banking, p. 49.
92. Lees, International Banking and Finance, p. 40.
93. Robinson, Multinational Banking, p. 47.
94. Bench, "U.S. Comptroller of the Currency," p. 47.
95. Ibid.
96. Ibid.
97. Robinson, Multinational Banking, p. 48.
98. Ibid., p. 185.
99. Bench, "U.S. Comptroller of the Currency," p. 50.
100. The Banking Act, June 16, 1933, Sec. 13.
101. "We Don't Blacklist," Euromoney, p. 88.
102. Canada, Bank Act, R.S., C. B-1, S.64(1).
103. Ibid., S.65(1).
104. Ibid., S.65(3).
105. Canada, Inquiries Act, R.S., C. I-13, S.65(4).
106. Canada, Bank Act, R.S., C. B-1, S.105.
107. Clendenning, The Eurocurrency Markets, p. 130.
108. R.M. Thomson, "Internationalization of Canadian Banks," p. 20.

CHAPTER IV

THE MULTINATIONAL ENTERPRISE

This chapter studies the influence of the MNE on the internationalization of U.S. and Canadian banks. As has already been explained in the "Introduction", the definition of MNE for this paper includes not only those firms which fit the model in the theoretical literature but also other firms engaged in "international business" and "operationally positioned in more than one country". MNE's have influenced both the strategy and the structure of the banks. They have induced the banks to set up offices overseas, to diversify into new products, and to pursue greater volumes of business with the MNE. The new strategies have been reflected in new banking structures, changing the banks from "banks with international departments to international banks with their head office in the home country".¹

Many of the differences between the two banking systems found in this chapter tend to be related to the fact that the U.S. is a home country for MNE's while Canada tends to be a host country for MNE's. For example, R. Vernon has attempted to isolate those firms in the world which meet the theoretical criteria for a MNE.

He states that there are 490 MNE's in the world: 250 such firms are headquartered in the U.S., 150 in Europe, 70 in Japan and 20 in the rest of the world including Canada.² According to Vernon's study, relative to the U.S., Canada has very few MNE's. On the other hand, Canada is the largest recipient of foreign direct investment by MNE's. U.S. bank development has been closely related to the development of U.S. MNE's. Canadian bank development has been influenced to a very small extent by the foreign direct investment of Canadian firms, but this has only become significant during the past few years. To a greater extent, Canadian banks have developed through their relationships with foreign multinationals. The different relationships with MNE's has resulted in differences in the internationalization of U.S. and Canadian banks.

In order to simplify the study of the differences, the chapter has been divided into two major sections. The first section deals with the effects of the MNE on bank strategy: geographical dispersion, expansion in the volumes of business, introduction of new products etc. The second section deals with the resultant structures which have emerged from the various banking strategies.

Each section includes a general introduction and then a study of the two respective banking systems.

Banking Strategy

In this section the differences between the two banking systems arise from the fact that the United States is a home country for MNE's and Canada tends to be a host country. As U.S. MNE's went overseas, U.S. banks followed suit in order to service the international needs of the MNE's. The Canadian situation is much more of a "mixed bag". Because Canada was a host country for MNE's, the Canadian banks were able to develop a business relationship with MNE's. Subsequently they were able to exploit this expertise in foreign markets. Therefore, this section does not deal with a parallel application of a theory but consists of two separate explanations of how the MNE influenced the respective internationalization of U.S. and Canadian banks.

United States

In the literature there seems to have developed two general theories concerning how the internationalization of U.S. banks was influenced by the multinational enterprise. The most emphasized theory is based on the overseas needs of U.S. firms engaged in direct foreign investment. In

brief, the theory states that as U.S. MNE's moved overseas they actually needed servicing by U.S. or other international banks and U.S. banks responded to this need. There are four different explanations for this theory as follows:

1. A second generation of smaller U.S. multinationals needed more overseas service than the first generation of big U.S. MNE's.

2. As U.S. direct foreign investment shifted from Canada, to Europe and the developing countries, the MNE's needed more overseas banking services.

3. U.S. capital restrictions cut off the U.S. financial markets so the MNE's had to raise more funds overseas.

4. With the advances in technology the MNE's demanded more sophisticated methods of banking.

The second general theory deals with the same movement of MNE's but from a perspective supported by the theory of oligopolies. The explanation rests on the banker's perceptions of the domestic and international market.

Janet Kelly sums it up in this manner, "The urge to follow customers abroad seems to be associated not so much with customer's habits as with banker's attitudes towards their fellow bankers."³ The general theory goes

something like this. During the sixties U.S. bankers perceived that many of their domestic customers had developed international banking needs. The banker had to make a good effort to service satisfactorily this need or risk losing the business to a bank which had internationalized at an earlier date, such as Citicorp, or to rival banks which had begun the process of internationalization to service their customers. If the U.S. firm grew accustomed to using another bank overseas, the firm theoretically would also move its domestic business to the new bank because the new bank could provide better world-wide service.

The Theory of Multinational Needs

MNE: Foreign Financial Needs

During the fifties most large U.S. banks continued to rely on correspondent relations to service the overseas needs of their domestic customers. Any actual overseas need, which necessitated physical presence, was left to the select few which already had foreign networks (mainly Bank of America, Chase Manhattan and Citibank) or to local banks. The first generation of U.S. multinationals which went overseas during the period between World War II and 1960 were the big U.S. corporations like IBM and

General Motors etc. and they already had world-wide reputations. These corporations had not only good internal sources of capital but also good reputations and balance sheets which facilitated their credit with host country banks. The companies worked closely with foreign banks; and the branches of U.S. banks were not crucial to their operations.⁴

The sixties took a new rush of investments to foreign countries and this raised the demands placed upon both local banks and the international banks. In 1960 there were less than 2,000 U.S. firms operating abroad but by 1974 8,000 U.S. companies had overseas investments.⁵ This new generation of multinationals were less familiar with the foreign environment and did not have past experience working with foreign banks. At the same time, the foreign banks did not recognize the new names and were unsure of their credibility. This lack of familiarity was compounded by the fact that U.S. subsidiaries have always tended to have low capitalization and were thus a high credit risk in the eyes of the foreign bank.⁶ U.S. banks overseas did not face the same problem because they were familiar with the parent company in the U.S. If the credit risk was too high, the U.S. bank could always work out some informal guarantee with the U.S. parent.⁷

MNE: Location of Needs

The second explanation concerns the location of the new foreign financial needs of MNE's. It is based on the location of direct foreign investment by non-financial U.S. companies. Table 4.1 shows the location and amounts of direct foreign investments by U.S. residents since 1950. During the decade of the fifties the bulk of U.S. direct foreign investment was in Canada and Latin America. Direct foreign investment was growing at a faster rate in Europe but had started from a much smaller base. In Latin America new banking offices were not necessary because the area already had networks of U.S. banks including Chase Manhattan, First National City Bank, and First National Bank of Boston. In Canada, the U.S. banks did not accompany the American direct foreign investment of non-financial firms. The Canadian banks took upon themselves the role of encouraging and facilitating U.S. investment in Canada during the fifties. The Canadian banks set up representative offices in the U.S. in order to become familiar with the U.S. parents and in order to encourage U.S. companies to invest in Canada. This "reverse process" is more fully explained under the next section of Canadian banks. U.S. banks were also

Table 4.1

United States Direct Foreign Investment

Book Value \$U.S. Billions

	Total	Canada	Europe	Developing Countries
1976	137.2	33.9	55.9	29.1
1975	124.2	31.0	49.6	28.9
1974	110.2	28.4	44.8	28.5
1973	103.7	25.5	38.3	25.3
1972	94.3	25.8	30.8	25.2
1971	86.2	24.1	27.7	23.4
1970	78.2	22.8	24.5	21.4
1969	71	21.1	21.7	20.0
1968	65	19.5	19.4	18.8
1967	59.5	18.1	17.9	17
1966	54.8	17	16.2	16
1965	49.4	15.3	14	15.1
1964	44.5	13.9	12.1	13.9
1963	40.7	13	10.3	13.2
1962	37.3	12.1	8.9	12.5
1961	34.7	11.6	7.7	12.2
1960	31.9	11.2	6.7	11.9
1959	29.8	10.3	5.3	11.4
1958	27.3	9.3	4.6	10.9
1957	25.4	8.8	4.1	10.2
1956	22.2	7.5	3.5	9.5
1955	19.3	6.5	3.	8.9
1954	17.6	5.9	2.6	8.4
1953	16.3	5.2	2.4	8.
1952	14.8	4.6	2.1	7.
1951	13.1	4.	2.	6.7
1950	11.8	3.4	1.7	5.5

Source

United States. Department of Commerce.

Survey of Current Business, various issues.

inhibited in Canada because they were prohibited from setting up foreign branches in Canada. Prior to 1967 foreign banks could own subsidiary banks in Canada but First National City Bank was the only U.S. bank to invest in a subsidiary Canadian bank when they bought the Mercantile Bank from its Dutch owners in 1963. Foreign banks have been allowed to own non-banking financial subsidiaries in Canada but U.S. banks did not actively pursue this option until recently.

In 1969 Europe replaced Canada as the top recipient of U.S. direct foreign investment as is shown by Table 4.1. Relative to the rest of the world, U.S. direct foreign investment in Europe has grown very quickly during the late sixties and seventies. This has been accompanied by a parallel growth in the number of U.S. bank branches in Europe from 22 in 1965 to 117 in 1976. (see Table 4.2) A possible reason for new branches is the relatively large financial flows produced by the U.S. multinations in Europe. In 1966 \$17 billion total investment in Canada produced annual sales of \$24 billion. In Europe \$16 billion in investment produced \$47 billion in annual sales.

Growth of U.S. direct foreign investment in developing countries has grown much slower during the late sixties and seventies as shown by Table 4.1. But during the period

Table 4.2

The Foreign Branches of U.S. Banks

	U.K.	Europe	Latin America	Africa & Middle East	Asia	U.S. Over- seas Poss.	Total	No. of U.S. Banks
1976	56	117	342	35	125	56	731	126
1971	45	76	318	13	80	45	577	91
1965	21	22	88	7	50	23	211	13
1960	13	6	55	4	23	22	124	8
1955	11	6	56	4	20	14	111	7
1950	10	5	49		19	12	95	7

Source

United States. Board of Governors of the Federal Reserve System.
Annual Report. Washington, various issues.

1965 to 1976 the foreign branches of U.S. banks increased from 88 to 342 in Latin America, from 7 to 35 in Africa and the Middle East and from 50 to 125 in Asia. (see Table 4.2)

During the period 1969 to 1975 the sales of U.S. affiliates in developing countries quadrupled as compared to only a doubling of sales in Canada. Table 4.3 shows that the sales of U.S. affiliates in developing countries were also more export oriented than in Europe and Canada. The growing business of U.S. MNE's in developing countries needed overseas servicing by U.S. banks because the host country banking systems were not as well developed, especially with respect to international finance. Since the sales of U.S. affiliates were very export oriented, the MNE's would need more international financial transactions than was the case in Europe or Canada.

Table 4.3

Percentage of U.S. foreign affiliate's sales which are exported.

<u>Host Country</u>	<u>1966</u>	<u>1972</u>	<u>1975</u>
Canada	16%	23%	22%
Europe	24%	26%	27%
LDC's	40%	42%	58%
Total	25%	28%	34%

Source

United States. Department of Commerce. Survey of Current Business. Washington, various issues.

MNE: Capital Requirements

The third explanation concerns the international capital requirements of U.S. MNE's. U.S. capital export controls and parallel growth of the Eurodollar market are cited by many authors as an important factor in the overseas expansion of U.S. banks.⁸ The controls effectively denied U.S. corporations the use of U.S. head office funds and/or the use of the New York capital markets to fund subsidiaries. Therefore, U.S. multinationals were compelled to look overseas for new sources of capital.⁹

During the sixties the U.S. balance of payments was of vital concern to the U.S. government and they implemented

certain policies which also raised the attractiveness of Eurodollar activity. On July 18, 1963 the President proposed the Interest Equalization Tax (IET) to discourage the selling of foreign bond issues in the U.S. The act as passed in September 1964 also covered long term loans by U.S. banks.¹⁰ It was a 15% tax on foreign securities sold to residents of the U.S. but excluded short term bank loans to foreigners. The tax was amended in 1965 to include all bank loans over one year maturity. Over the next ten years the rate of IET was intermittently adjusted to keep the effective cost of raising foreign issues in U.S. at least 1% over the foreign rates until January 29, 1974 when it was eliminated.¹¹ But the IET did not prohibit U.S. subsidiaries from raising debt in the U.S. and didn't stop the transfer out of the country of U.S. funds to buy foreign securities.¹²

The Voluntary Foreign Credit Restraint Program (VFCRP) established February 10, 1965 was centred around a voluntary call on the banks and other financial institutions to limit credit to foreigners and limit investment in foreign securities.¹³ It did not cover foreign branches if the deposits were derived from foreign sources but did cover head office advances to branches.¹⁴ The guidelines were made mandatory in February 1, 1968 and removed on

January 29, 1974. These measures were designed to reduce the U.S. balance of payment deficit.

The Foreign Direct Investment Restraint Program (FDIRP) of 1966 was a voluntary measure to restrict both capital outflows and the reinvestment of foreign made profits by U.S. multinationals.¹⁵ Capital outflows were limited to 20% over a base period of 1962-64. On January 1, 1968 the program was made mandatory but various classes of foreign countries were given different restrictions. Developing countries were given the most lenient regulations and developed countries, not overly dependent on U.S. capital flows, were given the most stringent. The legislation greatly inhibited capital flows to those countries where the majority of U.S. DFI took place.

U.S. MNE's were, therefore, forced to raise capital outside the U.S. for overseas investments. The local national banks in host countries were not a suitable source of funds. The European economies were expanding at a booming rate and the domestic demand in Europe for finance was growing rapidly.¹⁶ National capital markets were insufficient to meet even the demands of European companies and governments which until 1963 had also depended on N.Y. as a major source of capital. U.S. business did not wish to go the route of selling equity in Europe because it would

lower U.S. control of their subsidiary. But, at the same time, domestic securities markets in these countries were inadequate.¹⁷ There was a need by both companies and governments for an international capital market that could supply them both with large amounts of money.¹⁸

The IET coincided with both tax and regulatory changes in London which allowed the first Eurobond issue to replace bond issues made in New York.¹⁹ Initially the subsidiaries of U.S. corporations did not borrow on the Eurobond market because of their tax exemption in the U.S. At first, governments borrowed in this market, but after the U.S. capital controls began in 1965, U.S. MNE's became the most important borrowers in the Eurobond market.²⁰ As the big U.S. MNE's made the market grow, smaller overseas U.S. corporations were also able to float issues.²¹ U.S. banks were able to participate in the underwriting of these securities via subsidiaries of their domestic Edge Act companies, and subsequently 9 U.S. banks from the sample became underwriters of Eurobonds via their London merchant bank. U.S. banks brought their American clients to the Eurobond market because they were shut out of New York.²²

The controls on capital flows also combined to enhance the use of foreign branches. U.S. corporations had to turn to foreign sources of funds to finance overseas investments.²³ U.S. banks could only service these requirements from their overseas branches. U.S. banks began to syndicate Eurodollar term loans to finance the capital requirements of U.S. multinationals. U.S. banks were given special anti-trust exemption to pool resources with local banks and other foreign branches to participate together in large consortia or syndicated loans.²⁴ When the borrower was a subsidiary of a U.S. corporation, the banks were encouraged since it assisted the U.S. balance of payments program.²⁵

MNE: Advanced Technology

The fourth explanation concerns the advances in banking technology. Modern technology has created the capabilities of much faster transactions, more efficient service and the greater availability of data. Van Vlierden of Bank of America states that global financial services will expand because of the expanding global communications and information manipulating capacity.²⁶ Dahl has also associated the overseas growth of U.S. banks with technological advances in travel and communications.²⁷

World-wide networks hooked up by satellite have the ability to "link major financial markets using advanced data processing and management information systems".²⁸ Multinationals are becoming financially very sophisticated and efficient and demand these instant services. Companies can no longer depend on funds arriving by mail or regular telecommunications networks.

Bank of America has invested heavily in this new technology. Major units around the world are now tied together by a satellite assisted network. It provides phone and telegraph communication and also makes possible direct access to bank computers.²⁹ This is very different from the days when a correspondent was nearly as good as a branch because all banks together were dependent on the same slow communications systems. It necessitates a world-wide presence in order to offer instant services to the multinational enterprise.

The Theory of Bankers Perceptions or Oligopolistic Reaction

The second general theory is very similar to oligopolistic theories of direct foreign investment as applied to non-financial firms. Knickerbocker's "oligopolistic reactions" states that members of an oligopoly will attempt to exploit an advantage over the other members in order to gain a

larger market share.³⁰ Therefore, banks with overseas offices will attempt to use their overseas contacts to improve their domestic market share. The second part of the theory states that members of the oligopoly will attempt to counter these moves usually by some method of imitation. Therefore, all the members of the U.S. banking oligopoly will have to internationalize. Service industries have tended to follow a similar evolution and Aharoni has used oligopolistic theory to describe this trend.³¹

It would seem that this theory of internationalization is only true if the U.S. banks are members of an oligopoly. Knickerbocker's definition of oligopoly contains three important characteristics, "it is a type of market structure that exists when there are only a few sellers, that sell close substitutes and there is substantial market interdependence among the competitive policies of these firms".³² The U.S. banking system does not fit neatly into this theory of oligopoly, since there are almost 15,000 U.S. banks. Nevertheless, there seem to be two oligopolistic situations in U.S. banking. They are a regional oligopoly and an oligopoly with respect to customer base.

Regional Oligopoly

In the U.S. in 1973 1% of the banks held 50% of all the deposits.³³ But this national data does not present a clear picture because most bank competition is of a local nature due to the restrictions on branching.³⁴ In New York City in 1973 the six New York City based banks in the sample held 70% of the deposits in the 119 commercial banks in that city.³⁵ In Los Angeles the largest three banks (probably Bank America, Security Pacific and United California Bank) held 66% of total deposits. In Chicago of 356 banks, with no branching allowed, Continental Illinois, First Chicago and Harris Trust held 48% of deposits.³⁶ In each of the three cities, there seems to be a local oligopoly. This is significant because the three cities are the three most important financial centres in the U.S.

Oligopoly of Customer Base

A look at customer base supports the oligopolistic description. In California the big four banks have their strength in their retail branch systems and have built their concentration in a fashion similar to Canada. But they have also built up a wholesale business. In Chicago and New York with their limited branching regulations, the large banks have built their business around the wholesale market.

It is the wholesale customers which have dominated U.S. Direct Foreign Investment. California, Illinois and New York are the three largest industrial and financial states in the U.S. and much of American foreign investment has come from these areas. Only the largest U.S. banks can supply the financial needs of the largest U.S. corporations and, therefore, this market has been dominated in each region by a few banks.

The customer base did not become fully integrated until they were integrated in the overseas markets. Prior to World War II the international business of U.S. companies took place via New York and the New York banks, with overseas networks, handled the operations. Many California companies went international in the wake of World War II and led Bank of America abroad. Central U.S. companies went abroad during the late fifties and early sixties and led the Chicago banks abroad. In the overseas market the banks are equal competitors and have no regional restrictions. Therefore, for example in France, a bank from New York can solicit the business of a U.S. subsidiary which has its headquarters in Chicago. But in order for the oligopolistic reaction to take place, the Chicago bank must feel the threat of losing its business in Chicago. Three factors have contributed to the reality of this

threat. Since 1968 the major U.S. banks have been expanding across the U.S. via their parent holding company. They have invested in financial subsidiaries and corporate loan offices. Second, the ability of banks to compete through these offices has been enhanced by the technological advances in communications. Through computer communications a New York bank can offer the same efficient service to a Chicago or New York customer. Third, U.S. banks have been building Edge Act subsidiaries in each of the major U.S. regions in order to service the regional international needs. This trend began in 1967 when Citicorp was the first bank to set up an Edge Act subsidiary outside New York or the bank's home state. Today most of the banks in the sample have an EAC subsidiary in the cities (area) of their main national competitors: California, New York, Chicago, Texas and Miami.

Bankers Perceptions

Central to the oligopolistic theory are the perceptions of the bankers. Bankers perceived that in order to maintain their share of the total market, they had to expand overseas. Executives for all sizes and locations of banks seemed to have the same perception. The "big three" banks all stated that international expansion was necessary in order

to service U.S. corporations. David Rockefeller stated that the major factor in the international expansion of Chase was to improve their competence to serve U.S. corporations.³⁷ Citibank executive, Costanzo, stated that a global network is necessary to offer corporate customers full service.³⁸ Bank of America was the slowest of the "big three" to internationalize. It had become the largest bank in the U.S. through the major role in which California industry played in the war. After World War II California became a major U.S. centre of industry and commerce. Bank of America, which had only one foreign branch in 1945 recognized the need to become an international bank in order to serve the states growing international commerce.³⁹ D. Vollmer of Bank of America stated that banks must expand their international services to serve better their domestic customers or risk losing them to other rapidly emerging international banks.⁴⁰

The "medium" size Chicago banks came to the same conclusions: Chicago was officially introduced to the world with the opening of the St. Lawrence Seaway in 1958. This new international business prompted First Chicago to open a London office in 1959 to serve more effectively its domestic customers.⁴¹ During the fifties, Continental Illinois of Chicago left the mid-west international business

to the New York banks. But more and more Chicago companies began exporting and investing overseas. As Continental's customers became multinational, they required multinational banks.⁴² Miossi of Continental claims they were pressured into going abroad because they were actually losing business to New York banks.⁴³

The same process seems to be true for the smaller regional banks. An executive of Philadelphia National Bank states that "banks learned that by providing international services for their customers their total relationship was strengthened".⁴⁴ An executive of Pittsburgh's Mellon Bank stated that "if a bank couldn't serve the international needs of companies - the relationship would probably diminish".⁴⁵ The regional banks now saw the road to growth as dependent on the international growth of the bank.⁴⁶

Canada

The growth of the international wholesale banking of Canadian banks has been attributed to the "expansion of the multinational corporation and the rapid growth of international trade".⁴⁷ Clendenning defines the "trend towards multinational banking as increased interbank business, expanded lending activities to Canadian and foreign multinational enter-

Table 4.4

Direct Investment and Canada

\$Cdn. Millions

	D.F.I. in Canada	D.F.I. Abroad
1976	395	-555
1975	630	-795
1974	725	-775
1973	750	-785
1972	620	-400
1971	925	-230
1970	905	-315
1969	720	-370
1968	590	-225
1967	691	-125
1966	790	-5
1965	535	-125
1964	270	-95
1963	280	-135
1962	505	-105
1961	560	-80
1960	670	-50
1959	570	-85
1958	430	-40
1957	545	-80
1956	650	-105
1955	445	-85
1954	425	-90
1953	450	-70
1952	360	-85
1951	320	-30
1950	225	35
1949	94	13
1948	71	15
1947	61	6

Source

Canada. Department of Industry, Trade and Commerce.
Direct Investment in Canada by Non-Residents
Since 1945. Ottawa, 1973.

Canada. Department of Industry, Trade and Commerce.
Canada Year Book. Ottawa, various years.

prises and the financing of Canadian exports".⁴⁸ John Davidson gives a similar explanation for the expanded international wholesale activity of North American banks; "the development of the multinational enterprise and the Euro-dollar market".⁴⁹ This section of the chapter will study the role of the MNE in the internationalization of Canadian banks.

It is difficult to apply the two general theories, used in the U.S. case, to the Canadian situation. Compared to the U.S., Canada has been more of a host country than a home country for MNE's. Table 4.4 shows that it was not until 1973 that more investment flowed out of Canada than into Canada. Significant outflows of Canadian D.F.I. did not begin until the seventies. Most of the expansion of foreign networks did not take place in order to service the international needs of home country firms. But the international size of Canadian banks is abnormally large relative to the size of Canadian direct foreign investment as shown by Table 4.5. In the U.S., during the period of greatest internationalization, the international assets of U.S. banks were much smaller than the book value of U.S. direct foreign investment. It was not until 1973 that the international assets of U.S. banks became larger than the book value of U.S. D.F.I. In Canada the international assets

Table 4.5

Relative International Size of Canadian Banks

	CANADA			U.S.	
	Total Book Value of Canadian D.F.I.	International Assets of Canadian Banks	Total Book Value of U.S. D.F.I.	International Assets of U.S. Banks	
	\$CDN Billions	\$CDN Billions	\$US Billions	\$US Billions	
1951	1.2	.8	13.1		
1955	1.7	1.1	19.3		
1960	2.5	2.7	31.9		
1964	3.3	5.1	44.5	8.	19.4 (65)
1968	4.6	7.8	65	31.2	
1970	6.1	13.7	78.2	54.2	
1974	9.3	28.5	110.2	165.5	
1976	10.5 est.	37.6	137.2	235.7	

Sources

Canada. Statistics Canada. Canada's International Investment Position 1974.
Ottawa, 1978.

Canada. Department of Industry, Trade and Commerce. Canada Year Book.
Ottawa, various years.

United States. Department of Commerce. Survey of Current Business.
Washington, various issues.

have been larger than Canadian direct foreign investment since the late fifties and the gap is increasing. Canadian banks are also large relative to the size of Canadian non-financial firms. Of the world's top 56 banks, 5 are Canadian and 12 are American. But of the world's top 200 industrials, 101 are American and only 6 Canadian and 4 of the Canadian firms are subsidiaries of U.S. companies.

The internationalization of Canadian banks demands a different explanation. Part of the explanation comes in the next chapter on interbank assets. Interbank deposits have accounted for considerable proportion of the growth in the international assets of Canadian banks. But this market does not account for the large growth in foreign networks and in international commercial loans.

John Davidson suggests a probable approach to the Canadian banks. "They have long expertise dealing with U.S. MNE's and overseas dollars."⁵⁰ In the style of H.G. Grubel's price theoretic explanation, Canadian banks were able to use past accumulated knowledge and personal contact with MNE's to build their overseas business.⁵¹ In R.G. Thoman's article about how European banks could serve the MNE market, he states that "successful entry into the MNE market requires a good customer base of MNE's".⁵² The U.S. banks are certainly able to dominate this market

because of their domestic wholesale relationship with U.S. MNE's. Canadian banks do not have the same experience as U.S. banks but they have built an advantage over European banks because of their long working experience with U.S. companies and with U.S. dollars.

Helping the MNE into Canada

Canadian banks developed a working relationship with MNE's as the MNE's moved into Canada. During the 1950's the Canadian banks followed specific policies to encourage and assist direct foreign investment in Canada. For example, the foreign and business development department of the Bank of Montreal worked in close cooperation to contribute to new business in Canada.⁵³ In 1956 a representative was placed in Paris to not only assist Canadian business overseas but also to assist European investment in Canada.⁵⁴ By 1962 the business development department of the Bank of Montreal had representatives in Paris, New York, London, Houston, Chicago and California. The Houston office was described as specifically designed to "strengthen their close connections with the petroleum industry, which was such an important influence on the Canadian economy".⁵⁵

The other Canadian banks had similar developments. The Bank of Commerce set up a business development

department in 1959 with representatives in New York and London. In 1959 offices were added in Chicago and Dallas. In 1951, the Bank of Toronto set up a representative in London to help the Business Development Department which was assisting foreign manufacturing firms in the location of facilities and the making of sales.⁵⁶ By 1958 the Business Development Department had representatives in New York, London and Chicago trying to assist foreign firms to enter Canada in order to become their banker.⁵⁷ The Royal Bank used its combined foreign and domestic facilities to assist foreign firms settling in Canada.⁵⁸ By 1962 the Royal had special representatives of the Commercial-Industrial Development Department in Chicago, Los Angeles, Houston and New York.

The banks set up these representative offices to encourage investment in Canada and at the same time develop a contact with the corporate parent. They assisted investment into Canada in order that they might be the banker in Canada for that specific company. According to R.M. Thomson, presently Chairman of the Toronto-Dominion Bank, "the bank needs offices in all major U.S. cities because the major financial decisions for so many Canadian companies are being made in the U.S."⁵⁹ Through this process they have developed a working relationship with the

parent corporation of both first and second generation U.S. MNE's. During the fifties Canada was the "guinea pig" for many of the U.S. second generation of MNE's which expanded abroad during the sixties.

Lack of U.S. Competition in Canada

The relationship between U.S. MNE's and Canadian banks has been allowed to develop because U.S. banks were slow to follow their customers into Canada. Canadian banks were somewhat insulated by Canadian banking regulations. U.S. banks could not branch into Canada and the process of setting up a subsidiary bank was very difficult. First National City Bank bought Mercantile Bank from its Dutch parent bank and caused such an uproar in Canada that the 1967 Bank Act placed new restrictions on foreign banks. After 1967 no Canadian bank could be more than 25% foreign controlled and no single foreign bank could control more than 10% of a Canadian bank. Non-banking subsidiaries of foreign banks in Canada are a more recent phenomena but are too late to disrupt the relationship between Canadian banks and subsidiaries of U.S. MNE's.

Developing Connections Abroad

Canadian banks have also developed multinational business contacts in "third" countries usually in the Latin America and

Caribbean where they have been established since the 19th century. The Royal Bank stated that their bank developed "connections abroad with companies of international character which were of material assistance in extending relations with the same companies subsidiaries in Canada".⁶⁰ In the Caribbean and Latin America, Canadian banks developed experience working with foreign multinational enterprises in a "third party" country.

With the past experience in dealing with U.S. and other foreign multinational enterprises, Canadian banks have been a step ahead of many other international banks. U.S. MNE's seemed to develop new international financial needs and the banking oligopoly in the U.S. pushed U.S. banks overseas to serve these needs. In the overseas markets, Canadian banks have been able to exploit past relationships with MNE's. Using H.G. Grubel's theory, it can be said that their past experience in working with U.S. MNE's gives them "the ability to draw on the information and personal contacts between the bank and the firms parent or other subsidiaries at low marginal cost".⁶¹

The Bank of Nova Scotia is an example of a Canadian bank which was able to develop this wholesale business with MNE's. In 1962 this bank had a large increase in foreign currency assets in two areas: money market deals and

wholesale loans. The foreign currency loans were mostly with large corporations.⁶² In the following years foreign currency growth continued to occur in wholesale lending. In 1964 the bank reported that the growth of wholesale business during this period was to "overseas concerns".⁶³

Pursuing MNE customers in the U.S.

Corporate customers in the U.S. are attractive to the Canadian banks. Canadian banks have more offices in the U.S. than any other country in the world. (see Appendix C) By the early 1960's each of the five Canadian banks generally had an agency branch, subsidiary or representative in each of the four commercially strategic areas of the U.S.: New York, California, Chicago and Texas. Forrest Rogers reported that business in the U.S. consisted of trade acceptances, term loans for good U.S. customers or call loans to New York securities dealers.⁶⁴

Call loans were important during the 1950's when they grew to as high as 30% of foreign currency assets but have subsequently undergone little growth. By 1976 they represented only 1.6% of foreign currency assets. In the U.S. trade acceptances and loans to good corporate customers have become the most important business. Business with U.S. customers was very important in the early 1960's. In 1963

it represented 50% of foreign currency assets. Although U.S. business remained important it dropped as a percentage of foreign currency assets during the late sixties as a result of U.S. legislation.

In 1965 the foreign currency operations were affected by a combination of U.S. government actions and Canadian government reactions. Five hundred of the largest U.S. corporations were voluntarily requested to assist the U.S. balance of payments program. The program included the repatriation of short term assets and dividends from Canada.

In 1964 U.S. MNE's had \$1.2 billion in short term foreign deposits and 3/4 of this was in Canada. The U.S. guidelines had lasting negative effects on these deposits.⁶⁵

But the Canadian banks did not decrease their U.S. assets in order to compensate. The Canadian Finance Minister requested the Canadian chartered banks prevent their net asset position vis-a-vis U.S. residents from falling below the level of late 1964. The Canadian banks assisted U.S. policy by liquidating assets and increasing liabilities in Europe in order to pay off U.S. residents withdrawing deposits from Canada. They only liquidated a few investments in the U.S.⁶⁶

In 1968 the U.S. implemented new mandatory controls on capital outflows because previous voluntary programs had

not corrected the U.S. balance of payments deficit.

Canada perceived that the 1968 mandatory controls would hurt U.S. direct investment in Canada and interfere with the balance of short term capital flows between the two countries.⁶⁷ These factors helped to put the Canadian dollar under extreme pressure and the Bank of Canada had to borrow foreign currency to buy Canadian dollars.⁶⁸

In order to alleviate this combination of problems, Canada requested and received exemption from the U.S. controls. In return Canada agreed to prevent U.S. dollars from passing through Canada and also undertook to invest extra U.S. dollars in U.S. government non-liquid securities.⁶⁹

Subsequently the Department of Finance, after consultation with the chartered banks, published guidelines to prevent the banks from circumventing the above objectives. (see Appendix H) Guidelines I and II were designed to prevent the expansion of eurodollar deposits and loans, with funds raised in North America. Guidelines III was to prevent Canadian intermediation between U.S. lenders and borrowers.⁷⁰ The guidelines effectively gave the chartered banking system a triple tiered interest rate structure on deposits in U.S. dollars. Non-North American sources of funds received the highest interest since the uses to these funds were unlimited.

Canadian sources were in the middle and U.S. on the bottom. The guidelines cut off North American sources of funds which Canadians could deposit or loan in the Eurodollar market. Therefore, the Canadian chartered banks were compelled to go into the Eurodollar interbank market both for the buying and selling of funds. In 1971 the guidelines had to be extended to cover Canadian dollar transactions since the banks were avoiding the guidelines by interlinking transactions in U.S. and Europe through Canadian dollars.⁷¹

It would seem that the guidelines had important effects on the international business of Canadian banks. In the year after the guidelines, foreign currency assets jumped by almost 50% and most of this took place outside of North America. The period of the guidelines between 1968-1974 is the time when Canadian banks made many of their investments around the world in both new branches and new subsidiaries. The largest market where Canadian banks could pursue the business of the MNE would be the U.S. and the guidelines cut them off from this market. Between the years 1968-1974 the Canadian banks were compelled to look for international growth outside of North America. And this they did with a rapid set up of branches and offices around the world in the pursuit of wholesale business. Initially the rapid growth in international assets

took place in the interbank market but international commercial loans have been slowly displacing this less lucrative type of banking.

But the U.S. has not lost its importance to the Canadian banks and this market has again grown since the guidelines were removed in 1974. The U.S. market is important for all the Canadian banks. Appendix C lists the various banking offices which the five Canadian banks had in the U.S. during 1978. Canadian banks have spread out beyond the four strategic commercial centres of the U.S. to such places as Atlanta, Boston, Miami, Cleveland, Pittsburgh and Seattle. The importance of the U.S. market is also illustrated by Table 4.6. The CIBC does not publish similar data but during 1972 when the U.S. controls were still in effect the bank described the U.S. as its major market.⁷² The Royal Bank states that "the U.S. market is particularly important....we must seek the many opportunities to provide loans in the U.S. to multinationals who do business in Canada and all over the world".⁷³ R. Mantzavinos, President of Citicorp (Canada) Ltd. also describes the U.S. as the most important market for Canadian banks. He states that about 22-23% of the international assets of Canadian banks are held with U.S. residents.⁷⁴ The importance of the U.S. market

has been noted by the Bank of Nova Scotia, Canada's most internationalized bank. It increased its emphasis on Eurocredits in 1976 and 1977 because U.S. corporate business was down.⁷⁵

Table 4.6

World-Wide Distribution of Foreign
Currency Assets of Canadian Banks

	Europe, Middle East & Africa	U.S.	Canada	Latin Am., Carib- bean	Asia
	%	%	%	%	%
Toronto- Dominion	33	30	13	11	13
B. of Montreal ^a	33	10	24	22	11
B. of Nova Scotia ^a	36	40		18	7
Royal Bank	45	19		30	6

Note

^aforeign currency loans

Sources

Annual Reports

Structural Influence

Initially banks planned international strategy within the framework of their set organizational structure. But eventually the pursuit of international business changed the structures of the bank. Banks moved along the path of internationalization from "foreign departments" to "international divisions" to "global product divisions". Product divisions with world-wide responsibility reflect a significant move towards a "global strategy" which is described as a necessary characteristic of a genuine "multinational enterprise". This important type of evolution is most evident in the U.S. banks and the multinational enterprise was an important catalyst in this process.

United States

The non-financial multinational enterprise helped to push or pull U.S. banks into the international markets. In subsequent international business, the multinational customer has become very profitable. Morgan Guaranty, "the American bank most oriented to serve the large multinational enterprise, earns higher margins than any of its competitors".⁷⁶ One reason that multinationals are profitable is due to their particularly favourable risk characteristics. In 1977 Citicorp registered no loan losses on multinational enterprises and less than .01% were classified as non-

performing. On other international commercial loans, Citicorp had a loss rate of 2%. Because multinationals are such lucrative customers, the banks have designed specific structures, products, and functions to meet the needs of these companies.

Global Product Division

Bank of America (1970), Citicorp (1974) and Continental Illinois (1975) have set up new multinational divisions with world-wide responsibilities for the banking needs of the non-financial multinational enterprise. The division usually consists of account managers, located near the headquarters of the multinational with world-wide responsibility for their customer(s). For example, Bank

America perceived that the "emergence of the multinational enterprise would be the most important institutional change in international business during the next quarter century".⁷⁷

Bank America assumed that multinational business should account for the majority of the world's output of goods and services by the year 2000. Bank America set up a new division to manage the global strategy designed to meet the needs of the multinational customers.⁷⁸

Continental Illinois is another example. It had international problems in 1974, when its profits dropped by 78%.

Subsequently in 1975 the executives formed a Global Task Force to devise new long range plans for the bank. Their objective was to "assure that Continental's strengths were put to optimum use".⁷⁹ As a direct result, Continental set up a new Multinational Division with world-wide responsibility for 420 companies. In 1977, 282 of this group were customers of Continental. The division now accounts for 12% of Continental's world-wide loans.

Citicorp's World Corporation Group is targeted to 450 leading multinationals. Account managers are stationed in 26 countries near the headquarters of each multinational. These customers accounted for 17% of Citicorp's world-wide loans in 1977, and 20% of overseas loans. Even the small Marine Midland Bank set up a "Corporate Banking Division" in 1977 to service U.S. and foreign corporations with substantial world-wide sales.

Other U.S. banks are taking incremental steps in the same direction. Manufacturers Hanover (1974), First Chicago (1977), and First National Boston (1977) have all set up departments with world-wide responsibility for the financial needs of U.S. based multinationals. Manufacturers Hanover has gone one step further and created a department to coordinate financial services with multinational corporations headquartered in Europe.

Financial Services for MNE's

The banks are also developing specific financial services suited to new needs in the multinational enterprise. Multinationals are becoming much more sophisticated in their use of funds and also are developing their own financial subsidiaries to handle their cash flow and financial control.⁸⁰

U.S. corporate customers are deserting the banks for the commercial paper market or developing tight internal organizations to meet their own cash and capital needs.⁸¹ In order to keep the multinationals as customers and to service their new needs, U.S. banks have developed such specialized services as follows: global cash management, cheque processing, foreign exchange and innovative currency swaps, leasing, foreign currency risk management, project finance, loan syndications, executive financial consulting, Eurobond underwriting, merger and acquisition consulting.

In 1974 Chemical Bank introduced Foreign Exchange Exposure Management, hopeful that this service would "enable Chemical to be increasingly useful to its MNE clients in the U.S. and abroad".⁸² Bankers Trust offers a Priority Remittance Service moving cheques and collections around the world.⁸³ Continental has organized a Global Cash Management group integrating the activities of domestic Corporate Cash Analysis and International Cash Management.

This includes:

an array of products and services to aid corporate treasurers in optimizing the movement and availability of funds including customer access to bank computers to check daily balances.⁸⁴

Manufacturer Hanover feels these types of services are necessary on a world-wide basis in order to retain the business of the MNE.⁸⁵

A Global Strategy

This restructuring and planning on a world-wide basis reflects the growing "multinationality" of the banks. A key aspect of a true multinational is a global perspective. Citicorp's World Corporation Group is an example of a world-wide strategy. Citicorp describes itself as a:

global organization servicing the financial needs of individuals, business and governments throughout the world. They look at the problem as a global market place and not as a country trying to export out.⁸⁶

Servicing the multinational was the catalyst in this evolution but it has spread to other sectors of Citicorp. Citicorp's Merchant Banking Group and Consumer Services Group are also now organized on a world-wide product basis.

The Bank of America is having a similar evolution. An executive of Bank of America has described his bank as "an organization which aims to harness its resources to achieve

global objectives without regard to national boundaries".⁸⁷

In 1977 the Bank of America created the World Banking division with world-wide responsibility for all wholesale customers. This division amalgamated its U.S. wholesale banking units, multinational and international divisions.

Within the new division, merchant banking, leasing and other financial services have been organized on a global basis.

This restructuring, which is very evident in Citicorp and Bank of America, and seems to be commencing in those other U.S. banks which have created specific divisions to service the multinational, is a further step in the process of internationalization. The changing structure is beginning to reflect their global strategy.

Canada

The Canadian banks lag behind their U.S. counterparts in developing new structures and services to meet the world-wide needs of the MNE. A multinational division must combine the functions of a corporate banking division and the international division. Canadian banks have been slow in developing corporate banking divisions. The Royal Bank did not create this division until 1974, the Bank of Montreal in 1976 and the CIBC in 1978. But there have been some tentative moves by Canadian banks towards divisions with

world-wide responsibility. In 1976 the Bank of Montreal established a Corporate Account Management on a domestic basis. In 1977 some of the credit functions in the international department were also placed under the responsibility of corporate account managers. In 1979 the Royal Bank has also made some important structural changes. The Royal Bank now has three banking divisions; Canada, National Accounts and International. The National Accounts will provide a highly responsive and specialized service to Canada's largest and most complex corporations on a global basis.⁸⁸ This division has world-wide responsibility for Canadian MNE's. The Toronto-Dominion has established a North American Accounts group in 1977 to provide support for businesses in both the U.S. and Canada.

These tentative moves by Canadian banks still lag behind the U.S. banks and there are some problems which might inhibit the development of a division which services the world-wide needs of MNE's. Only the Royal Bank and the Bank of Nova Scotia have a network of branches and subsidiaries comparable to the most internationalized U.S. banks. A bank like the Bank of Montreal could open a division with world-wide responsibility but there are many areas of the world where Montreal has a poor network. Appendix C

shows that the Bank of Montreal has the smallest U.S. network of all the Canadian banks. Appendix F and G show that the Bank of Montreal depends on representative offices to cover both Europe and Asia. Representative offices are sufficient for supporting the Bank of Montreal's eurocredit emphasis and for other "suitcase" loans but are not capable of providing host country financial requirements with the same ease as the Bank of Nova Scotia or Citicorp.

A second problem relates to the number and size of the Canadian MNE's. In the Royal Bank their new National Accounts division services Canadian MNE's. Canadian MNE's are still small in size and number relative to U.S. MNE's. Given a U.S. and Canadian bank of similar asset size, a multinational division in the Canadian bank catering to Canadian multinationals would be much less significant than a multinational division in a U.S. bank catering to U.S. MNE's. During the past two or three years there have been many new Canadian companies making foreign investments but the majority of the investing has been in the U.S. At this point in time, the National Accounts Division would seem to be little more than a glorified Corporate Banking Division. The structure of the Royal Bank still does not reflect the statement made by G. Styles, V.P. Royal Bank of

Canada in 1974. He described Canadian banks as "having changed from banks with international departments to international banks with their head office in Canada".⁸⁹

The International Division

In general, the structures of the Canadian banks seem to reflect the fact that they are national banks with important international operations. The Bank of Nova Scotia has the largest overseas network and the highest percentage of international assets but is still divided on a national-international basis. It has a corporate banking department but most commercial credit is still carried on through the domestic regional offices. The Bank of Nova Scotia was the first Canadian bank to set up regional departments in the international division with regional departmental offices. In 1967 the bank created a Caribbean and a European-Middle East area with regional offices in Toronto and London respectively. By 1977 the international department was divided into four regions:

1. Western Hemisphere; Toronto
2. U.K., Europe, Middle East, Africa; London
3. Pacific; Manila
4. Caribbean; Toronto

The Toronto-Dominion, Royal Bank and CIBC have developed

similar structures in their international divisions. By 1977 the Bank of Montreal had five regional departments with three overseas offices.

1. Canadian; Toronto
2. United States; New York
3. Latin America and Caribbean; Montreal
4. Asia/Pacific; Singapore
5. Europe/M.E./Africa; London

Financial Services

Canadian banks have also been much slower in their development of financial services for MNE's. As noted in Chapter 3, Canadian banks have been slow to underwrite Eurobonds. In June 1978 CIBC was the first Canadian bank to invest in a London merchant bank and the first issue they helped to manage was for Canadair. Although the Canadian banks are behind in the management of Eurobonds, Tables 3.3 and 3.4 in Chapter 3 show that Canadian banks are catching up to the U.S. leaders in syndication management. This has been accomplished by creating groups of "Euro-credit" specialists usually based in London. In 1977 the Bank of Montreal established a loan syndication unit in London.⁹⁰ The Royal Bank is in the process of establishing a wholly owned merchant bank in London which will be

the focal point for Eurocredit syndications.⁹¹ The CIBC has established a syndication unit in Toronto and London.⁹² At the Toronto-Dominion Bank their "London office is also the key unit in this operation" with a small group of specialists.⁹³

Canadian banks are also now developing project finance specialists. The Bank of Montreal has developed a project finance group with world-wide responsibility. The project finance group in the Bank of Montreal and the CIBC are both based on domestic experience and expertise in the natural resource and energy related areas. But this area of finance is still dominated by the U.S. banks. R.E. Radez lists the Royal Bank as number 14 among the world's top 4 banks in project finance between 1971-1977. Ahead of the Royal Bank are Citicorp, Chase Manhattan, Morgan Guaranty, Bank America, Manufacturers Hanover, First Chicago, and Bankers Trust.⁹⁴ Citicorp managed 30% of the projects compared to .8% for the Royal Bank.⁹⁵

Conclusions

U.S. MNE's were the prime motivating factor in the internationalization of U.S. banks. During the decade of the 1960's, U.S. MNE's began to require more international services because: the second generation of U.S.

MNE's were unknown in the overseas markets and required more home country assistance; U.S. MNE's began to invest in areas of the world where local banking communities were not developed enough to handle all their requirements; U.S. capital restrictions cut the MNE's off from New York and host country markets could not supply their domestic firms and the MNE's too; and advances in banking technology raised the benefits of a foreign network.

The development of the new financial needs of MNE's was paralleled by changing banker perceptions. The U.S. bankers perceived that their large corporate customers now had international financial requirements. The U.S. banks had to move overseas to not only service the international needs of their domestic customers but also to retain their domestic business (oligopolistic reaction).

During the same period, the Canadian banks also underwent internationalization although they did not develop as extensive networks or as large a volume of commercial loans. But Canadian banks were able to compete for some of the MNE business because Canadian banks had extensive experience in dealing with U.S. MNE's and U.S. dollars. Basically they developed a working relationship with U.S. MNE's because Canada is the most important country in the world for U.S. direct foreign investment. The

Canadian banks were able to develop international commercial business from their past expertise gained by working with U.S. MNE's in both Canada and the U.S. The largest market in the world for banking with MNE's is in the U.S. and it is here where the Canadian banks have built their most extensive foreign operations.

A significant development in the internationalization of a bank consists of restructuring on a global basis. The MNE is an important catalyst in this evolution as banks strive to service their international requirements. This restructuring is much more evident in the U.S. banks than in the Canadian banks. The most advanced model is Citicorp with all its various divisions based on global responsibility. Citicorp began this evolution with the creation of a multinational division with global responsibility for MNE's. Many other U.S. banks have also begun the same process beginning with a division to serve MNE's. Canadian banks are not as structurally advanced. They are still basically national banks with international divisions. Only the Bank of Nova Scotia has an international network which can compare with the most internationalized U.S. banks but it has not even begun structural change.

Notes

1. Davidson, "Canadian Banks Think Globally," p. 9.
2. Vernon, Storm over the Multinational, p. 12.
3. Kelly, Bankers and Borders, p. 123.
4. de Vallee, "Financial Aspects of MNE's," p. 129.
5. Bertin, "Growth of MNE's," p. 33.
6. de Vallee, "Financial Aspects of MNE's," p. 130.
7. Ibid.
8. For a more extensive explanation see Robinson, Multinational Banking, or Clendenning, The Eurocurrency Markets.
9. Bartlett, "American Bond Issues," p. 176.
10. Clendenning, Eurocurrency Markets, p. 25.
11. Ibid.
12. Carreau, "The I.E.T.," p. 63.
13. Clendenning, Eurocurrency Markets, p. 30.
14. Ibid.
15. Ibid.
16. Samuels, Company Finance in Europe, p. 265.
17. Bartlett, "American Bond Issues," p. 177.
18. Samuels, Company Finance in Europe, p. 265.
19. Park, Eurobonds, pp. 9, 10.
20. Ibid., p. 51.
21. Ibid., p. 52.
22. Mendelsohn, "Eurobond Survey," p. 1241.

23. Kelly, Bankers and Borders, p. 103.
24. Robinson, Multinational Banking, p. 253.
25. Ibid.
26. van Vlierden, "New Era for International Banking," p. 148.
27. Dahl, "International Operations of U.S. Banks," p. 103.
28. Hurst, "International Relationships of U.S. Banks," p. 780.
29. Bank America Corporation, Annual Report, 1977.
30. Knickerbocker, Oligopolistic Reaction, pp. 5, 6.
31. Aharoni, Foreign Investment Process, pp. 6, 7.
32. Knickerbocker, Oligopolistic Reaction, p. 4.
33. Hutchinson, Money Banking and the U.S. Economy, p. 71.
34. Ibid.
35. Ibid., p. 72.
36. Ibid., p. 73.
37. "Interview," The Banker, p. 916.
38. Costanzo, "Citibank - Overseas Growth," p. 663.
39. Peterson, "Interview," p. 997.
40. Vollmer, "Financial Institutions," p. 140.
41. First National Bank of Chicago, Annual Report, 1959.
42. Miossi, "Chicago as an International Financial Centre," p. 1507.
43. Ibid., p. 1508.
44. Heldring, "International Banking Function," p. 347.

45. Thornton, "American Banks to London," p. 897.
46. Ibid.
47. Clendenning, Eurocurrency Markets, p. 104.
48. Ibid.
49. Davidson, "Canadian Banks Think Globally," p. 9.
50. Ibid.
51. Grubel, "Multinational Banking," p. 352.
52. Thoman, "How to Serve the MNC Market," p. 96.
53. Bank of Montreal, Annual Report, 1951.
54. Ibid., 1956.
55. Ibid., 1962.
56. Bank of Toronto, Annual Report, 1951.
57. Ibid., 1958.
58. Royal Bank of Canada, Annual Report, 1950.
59. Canada, Senate of Canada, Committee on Banking Trade and Commerce, Proceedings, Second Session, Thirtieth Parliament, 1976-1977, Issue No. 25, p. 17.
60. Royal Bank of Canada, Annual Report, 1950.
61. Grubel, "Multinational Banking," p. 353.
62. Bank of Nova Scotia, Annual Report, 1962.
63. Ibid., 1964.
64. Rogers, "Canadian Banks Overseas," p. 1218.
65. Freedman, "Foreign Business of Canadian Banks," p. 96.
66. Wonnacott, Floating Canadian Dollar, p. 41.
67. Binhammer, Money and Banking, p. 630.

68. Bank of Canada, Annual Report 1968, p. 37.
69. Wonnacott, Floating Canadian Dollar, p. 44.
70. Freedman, Foreign Business of Canadian Banks, p. 11.
71. Rogers, "Canadian Banks Overseas," p. 1220.
72. Canadian Imperial Bank of Commerce, Annual Report, 1972.
73. Royal Bank of Canada, Annual Report, 1978.
74. Canada, Senate of Canada, Committee on Banking Trade and Commerce, Proceedings, Fourth Session, Thirtieth Parliament, 1978, Issue No. 3, p. 53.
75. Bank of Nova Scotia, Annual Report, 1977.
76. Thoman, "How to Serve the MNC," p. 90.
77. Vollmer, "Financial Institutions," p. 143.
78. Ibid.
79. Continental Illinois Corporation, Annual Report, 1975.
80. Hendley, "Financial Institutions and MNC's," p. 122.
81. "The Glory Days," Business Week, p. 64.
82. Chemical New York Corporation, Annual Report, 1974.
83. Bankers Trust Company, Annual Report, 1977.
84. Continental Illinois Corporation, Annual Report, 1977.
85. Manufacturers Hanover Corporation, Annual Report, 1977.
86. Clarke, "Citibank's Walt Writson," p. 92.
87. Vollmer, "Financial Institutions," p. 137.
88. The Royal Bank of Canada, Annual Report, 1978.
89. Davidson, "Canadian Banks Think Globally," p. 9.

90. Bank of Montreal, Annual Report, 1977.
91. Royal Bank of Canada, Annual Report, 1978.
92. CIBC, Annual Report, 1978.
93. Toronto-Dominion Bank, Annual Report, 1978.
94. R.E. Radez, "Opportunities in Project Finance,"
The Banker 128 (August 1978): 61.
95. Ibid.

CHAPTER V

THE INTERBANK MARKET

The MNE does not account for the total internationalization of U.S. and Canadian banks. A large proportion of their international business has consisted of interbank assets. The interbank market consists of Eurocurrency deposits and loans among international banks. "The function of money markets in general and the Eurocurrency market in particular is to borrow funds from savers and provide credit to borrowers."¹ The banks act as intermediaries in this market, instead of finding a borrower and user for every transaction the banks just go to other banks for the required deposit or loan.

The Eurocurrency system as it is known today began in London in the 1950's. The first deposits are usually traced to one of the following two sources. First, the Eastern European countries removed their deposits from New York to London so that the deposits could not be blocked by the U.S. government. Second, European holders of U.S. dollars attempted to obtain higher rates of interest than were available in the U.S. because Regulation Q controlled the maximum level of interest paid on deposits in U.S. commercial banks.² The use of Eurodollars was further

encouraged by a U.K. prohibition against the use of sterling as an international trade vehicle; as a result dollars took the place of sterling.³

Canadian banks were quick to begin receiving Eurodollar deposits. They had many years of experience operating in U.S. dollars at Montreal and Toronto. Even before the advent of the London market, Canadian banks used to accept U.S. dollar deposits at their head office and re-lend the funds through their New York Agency. The Canadian banks with their long established London branches and lucrative outlets for funds in the U.S. were quick to establish themselves in the Eurodollar market.

U.S. banks also became the lenders of and depositories for overseas dollar denominated deposits and loans.⁴

The funds were useful for swapping into host country currency which they lacked for maintaining short term liquidity levels and financing international trade.⁵ But in 1958 most U.S. banks were not in London, the centre of this new market. Six of the banks in the U.S. sample were already in London. Seven of the U.S. banks set up a branch between 1960 and 1970 and Wells Fargo did not arrive until 1977. Table 5.1 lists the dates when the U.S. banks set up a branch in London, which was generally their first overseas branch. Access to the Eurodollar

Table 5.1

U.S. Branches in London

<u>Bank</u>	<u>Arrival Date</u>
Citibank	1902
Chase Manhattan	1887
Bank of America	1931
Bankers Trust	1924
Manufacturers Hanover	1925
Morgan Guaranty	1897
Chemical Bank	1960
Continental Illinois	1962
First National Bank of Boston	1964
Marine Midland	1964
First Chicago	1965
Crocker	1969
Security Pacific	1970
Wells Fargo	1977

market was an important reason for establishing a branch in London. U.S. capital controls during the sixties and continued use of Regulation Q soon made it necessary for a large U.S. bank to have London access to Eurodollar deposits to be channelled to head office to circumvent tight credit conditions in the U.S. This need brought the last major U.S. banks to London.⁶

Interbank Liabilities

In the Eurocurrency markets, the banks have no captive deposit base as in the domestic situation but must "compete aggressively on the open market for all deposits".⁷ The sellers of interbank deposits rank the banks according to their strength and stability. The most respected banks receive the deposits at the lowest cost. Low cost funds can have two effects on internationalization. Low cost funds may create sufficient margins for the bank to re-deposit the funds in a bank higher up the scale. Investments of this type can be made in London without the need of a larger foreign branch network. But the low cost funds may also give the bank a competitive edge in the loan market.

United States

The interbank liabilities of U.S. banks are more complicated than in Canadian banks. Table 5.2 reveals the problem.

Table 5.2

Dependence of the Foreign Branches of U.S. Banks
on Interbank Liabilities

	<u>a</u>	<u>b</u>
	%	%
1977	46	58
1976	48	59
1975	51	59
1974	53	57
1973	63	65
1972	61	63
1971	59	60
1970	60	62
1969	64	66
1968	48	54
1967	41	49
1966	39	46
1965	33	44

Notes

a - ratio between liabilities owed other private banks; to net foreign liabilities of U.S. banks. See Appendix D, "a" is equal to C/E

b - ratio between liabilities owed to other private banks and to U.S. head office; to net foreign branch liabilities. See Appendix D, "b" is equal to columns C+D/E

Column a is the ratio of liabilities owed to other private international banks to net foreign branch liabilities of U.S. banks. The gross figure includes double counting caused by the large amounts of interbranch liabilities.

This percentage shows the relative dependence of the foreign branches of U.S. banks on the interbank market for funds.

But this picture is not necessarily complete because U.S. banks can also obtain funds from the parent bank back in the U.S. If these funds are also classified as interbank liabilities, the total dependence is changed as can be seen in Column b of Table 5.2.⁸ A comparison between the figures in column a and b show that head office funds did not become a major factor until after 1973.

Between 1965 and 1969 U.S. banks rapidly increased their dependence on the interbank market. During the same period international assets were switching from head office to foreign branches. Therefore, as business increased in the foreign branches, the U.S. banks went to the interbank market to obtain funds. During this period many new branches were being set up in London. These new branches had no established overseas deposit base so had to go to the interbank market for funds. The peak in 1969 also represents the period when U.S. banks were soliciting funds to feed back to the head office in the U.S. in

order to circumvent tight domestic credit controls.

After the foreign currency crises of 1973 both U.S. and Canadian banks lowered their dependence on the interbank market. But as shown by column b in Table 5.2 this decrease in interbank business was counterbalanced by an increase in advances from head office. Wells Fargo has published this data and is a particularly good example. Table 5.3 shows that as Wells Fargo lowered or lost overseas deposits, it made up the difference by advancing funds from domestic operations.

Table 5.3

Overseas Interest Bearing Liabilities of
Wells Fargo and Co.

	Deposits in Overseas Offices	Funds transferred from Domestic Operations
	\$ millions	\$ millions
1977	1,189	1,403
1976	846	1,540
1975	953	938
1974	1,670	332
1973	1,781	278

The U.S. banks do not all obtain interbank deposits at the same rates. Like other international banks, they are tiered on the basis of size, support from stockholders, perceived recourse to Central bank assistance, insurance

on deposits etc. During the crisis of 1974 Citicorp, Chase Manhattan, Bank America and J.P. Morgan were listed by J.W. Backman as together on the top tier of the interbank market.⁹ The four banks had a distinct cost advantage over all the other U.S. banks. Appendix K presents the international earnings of U.S. banks. The largest and most internationalized U.S. banks maintained rapid growth of profits in 1974 and 1975. The smaller less internationalized U.S. banks were hit hard. First Chicago and Continental Illinois had some drastic reductions in profits. Crocker, Marine Midland and Wells Fargo significantly reduced their dependence on the interbank market.

By June 1976 Bank of America had pulled ahead of its three main U.S. rivals and was all alone upon the top tier. Like the Canadian banks, Bank of America has a widespread retail deposit base which is covered by federal deposit insurance. Bank of America is respected for its strong domestic base.

Although Bank America's operations have expanded globally, the strengths derived in California supply the corporation with unique resources - a stable yet growing financial base as well as a reservoir of skilled personnel.¹⁰

Bank of America's position on the top tier may also account for why it has the highest dependence on interbank assets

of the major U.S. banks. (see Table 5.5) The low cost funds give it a little wider margins on interbank assets.

Canada

Between 1954 and 1960 foreign currency interbank deposits in Canadian banks grew both in aggregate terms and as a percentage of total foreign currency liabilities. These deposits grew from \$83 million and 8% of total foreign currency liabilities in 1954 to \$647 million and 24% of foreign currency liabilities in 1960. The new growth coincided with growth in the new London Eurodollar market. During the sixties interbank liabilities continued to grow but not at the same rate as non-bank deposits. After 1968, interbank liabilities again grew quickly in conjunction with the general growth of the Eurodollar market and by 1976 deposits reached \$27.4 billion or 56% of total foreign currency liabilities.

The ability of the Canadian banks to attract funds in this highly competitive market has been enhanced by their domestic stature. Canadian banks are large, have a widespread retail deposit base which is covered with deposit insurance. International depositors have faith in the stability of Canadian banks (see page 47 for details).

The Royal Bank reported in 1977 that "one of the most important factors which led to the high world-wide reputation

of the Royal is the stability and strength of the bank's position in Canada".¹¹ Canadian banks are also respected for being cautious and conservative.¹²

During the foreign currency crises of 1973-74, the five Canadian banks remained on the highest tier and were able to obtain deposits at the lowest rates.¹³ During the oil crisis, the foreign exchange problems and bank failures of 1973 the CIBC claimed that the "size and reputation as a well-financed bank enabled them to attract deposits at the best rates".¹⁴ The BNS gives credit to its ability to attract large deposits as the key factor in their foreign currency lending business.¹⁵ The Royal stated that given the poor economic conditions "only banks like the Royal could obtain deposits below market rates and, therefore, pursue profitable business".¹⁶

Interbank Assets

Interbank assets are not a very lucrative form of international banking. For example, in Crocker National Corporation's 1977 Annual Report listed an average yield of 6.49% on its interbank deposits and an average rate of 7.94% on its foreign loans. In 1977 Citicorp reported an even more extreme difference of 4.41%.

Interbank assets are also not a good indication of internationalization. A bank needs only a branch in a few major financial centres, such as London and Singapore, in order to participate in the market. A bank may have large international assets, but if it is dependent on the interbank market, it will not necessarily have a large international network. There seems to be a negative relationship between the relative size of a bank's interbank assets and its international network. Banks in both the U.S. and Canada, which are the least dependent on the interbank market, generally have the largest foreign networks. But this comparison must be made separately within each country because in general all Canadian banks have been much more dependent on the interbank market than the U.S. banks.

United States

Table 5.4 presents the data on the interbank assets of U.S. banks. Column D is the ratio of international interbank assets to net international assets. During the sixties this dependence was stable around 16% but between 1969 and 1973 it rose from 16% to 47%. Unlike interbank liabilities, the growth in interbank assets did not coincide with the switch from head office to foreign branches as the centre of international business. But this growth in inter-

Table 5.4

International Interbank Assets of U.S. Banks

	<u>A</u> Net International Assets \$B	<u>B</u> Foreign Branch Claims on Other Private Banks \$B	<u>C</u> Head Office Claims on Other Foreign Banks \$B	<u>D^a</u> The Ratio of Inter- bank Assets to Net International Assets %
1977	273.9	91.9	13	38
1976	235.7	83.8	11.2	40
1975	189.9	69.2	7.6	40
1974	165.5	60.3	7.3	41
1973	128.8	55.9	4.6	47
1972	86.9	35.8	3	45
1971	65.9	23.5	2.1	39
1970	54.2	17	1.7	35
1969	44.2	9.8	1.9	26
1968	31.2	3.2	1.7	16
1967	25.4	2.5	1.6	16
1966	22.6	1.7	1.7	15
1965	19.4	1.7	1.6	17

Note ^aColumn D = (B+C)/A

Sources

Column A - see Appendix E Column F.
Column B & C -

United States. Department of the Treasury. Treasury Bulletin,
November 1970.

United States. Board of Governors of the Federal Reserve System.
Federal Reserve Bulletin, various issues.

bank assets did coincide with a period when the international assets were growing very quickly. Between 1968 and 1973 international assets quadrupled and rose from 6.2% of total assets to 15.4% of total assets. The U.S. banks were very dependent on interbank assets for a significant part of their international growth during this period. Subsequently, the dependence on interbank business has decreased. Again the international foreign exchange crisis and bank failures combined to make this market risky. It also became even less profitable as the margins were too close, especially for those banks which drifted to the second tier in the liability market.

In general, among the U.S. banks it would seem that the largest and most internationalized U.S. banks are least dependent on the interbank market. Chase Manhattan and Citicorp, with the largest networks (see Appendix I) and greatest involvement in international business, have the least dependence on interbank business. The four "small" international banks, Wells Fargo, Crocker, Security Pacific and Marine Midland, have low dependence ratios but this has come about only since 1974, and definite policies to lower dependence on this unprofitable business. The four banks have all significantly reversed their trend into interbank business as shown in Table 5.5. The four

Table 5.5

International Assets (\$Billions)
United States Banks

Bank	1977	1976	1975	1974	1973	1972
Citicorp						
Interbank	10.5	7	6.5	5.4	3.3	
Loans	26.7	22.9	18.7	14	10.2	
Chase-						
Manhattan						
Interbank	4.8	4.3				
Loans	16.9	13.5				
Bank America						
Interbank	10.5	10.1	9.3	8.1	6.2	4.5
Loans	15.4	13.2	10.5	8.2	5.5	4.3
J.P. Morgan						
Interbank	5.7	5.5	4.2			
Loans	10.3	8.4	7.7			
Manufacturers-						
Hanover						
Interbank	3.5	3.7				
Loans	10.7	9.2				
Bankers Trust						
Interbank	3.3	4.3	3.4	3	2.1	
Loans	6.3	5.3	3.1	3	2	
Chemical Bank						
Interbank	3.2	3.8	2.9	2.3	1.9	
Loans	6	4.4	3.2	2.3	1.5	
Continental-						
Illinois						
Interbank	3.6	3.3	1.9	1.9	1.6	1.
Loans	3.6	2.9	2.6	2.2	1.5	1.
First Chicago						
Interbank	2.8	1.8	1.5	1.5	1.3	.9
Loans	4	3.2	3.	2.6	1.7	
Wells Fargo						
Interbank	.4	.6	.5	.8	1.	.6
Loans	2.2	1.9	1.5	1.3	1.2	.6
Security						
Pacific						
Interbank	1.5	1.7	1.0	1.4	.8	.5
Loans	2.1	1.5	1.3	1.0	.8	.5

Table 5.5
Continued

Bank	1977	1976	1975	1974	1973	1972
Marine						
Midland						
Interbank	.9	.7	1.2	2.	2.	
Loans	2.1	1.9	1.9	1.8	1.4	
Crocker						
Interbank	.8	8	7	1.	.7	.6
Loans	1.4					
First National						
Boston						
Interbank	2.4	1.9	1.5			
Loans	1.5	1.2	1.2			

actually decreased their interbank assets. It is probable that they were all pushed into tier two and, therefore, interbank assets became very unprofitable. All of the banks had some difficult times with their international profits during this period, 1973-75, until they were able to get their interbank business down to a reasonable level. Marine Midland now has a policy of keeping its interbank assets at 1/3 of total international earning assets.¹⁷

Canada

The relative dependence of Canadian banks on interbank assets grew from 15% in 1959 to 55% in 1969 as shown by Table 5.6. The strongest growth occurred between 1966 and 1969 in conjunction with U.S. capital controls. Subsequently Canadian guidelines prevented the Canadian banks from channelling funds from the Eurodollar market back into U.S. business. The dependence on this market peaked at 63% in 1973 and has since gradually fallen to 46% of international assets in 1977.

Interbank assets are not the most attractive assets because of the low margins. In 1970 the Toronto-Dominion Bank stated that the bank was steering clear of interbank business because it was too unprofitable.¹⁸ The market became particularly unattractive in 1973 during the inter-

Table 5.6

International Interbank Business of Canadian Banks

	Foreign Currency Assets	Interbank Deposits	Ratio of Inter- bank Deposits to International Assets	Ratio of Inter- bank Liabilities to International Liabilities
	\$B	\$B	%	%
1977	47.7	21.8	46	56
1976	37.6	19.3	51	54
1975	31.2	15.5	50	52
1974	28.5	14.9	52	52
1973	23.3	14.8	63	54
1972	16.6	9.5	58	49
1971	14.5	7.7	53	45
1970	13.7	7.5	55	36
1969	11.6	6.4	55	28
1968	7.8	3.3	42	29
1967	6.5	2.3	36	24
1966	5.6	1.5	27	23
1965	5.	1.4	38	25
1964	5.2	1.6	31	18
1963	4.2	1.1	26	19
1962	3.9	1.2	31	18
1961	3.5	1.	29	20
1960	2.7	.5	20	24
1959	2.4	.4	15	22

SourceCanada. Bank of Canada. Bank of Canada Review, various issues.

national foreign exchange crisis and subsequent collapse of some important banks which were holding substantial interbank deposits. Between 1973-74 there was no growth of interbank assets in Canadian banks. The Royal Bank actually cut its interbank assets by 27% between 1973-74 and between 1974-75 the Bank of Montreal cut its interbank assets by 50%. (see Table 5.8) The Bank of Montreal took a definite policy to move away from depending on interbank business because the margins were too close.¹⁹ Its abrupt reversal in policy actually cut its foreign currency assets from 32% of total assets in 1974 to 22% in 1976.

The relative dependence of Canadian banks in their interbank assets is reflected in their international profits and networks. The Royal Bank and the Bank of Nova Scotia have had less dependence on the interbank market than the Toronto-Dominion or CIBC, as shown by Table 5.8. The international profits of the CIBC and Toronto-Dominion have been lower than the Royal Bank and Bank of Nova Scotia. (see Table 5.7) In terms of aggregate foreign currency assets, the Bank of Nova Scotia and the CIBC have been fairly close since 1969 but the CIBC, as shown by Table 5.8, has been very overly dependent on interbank assets. All during the same period (Table 5.7)

Table 5.7

International Profits of Canadian Banks
\$CDN Millions

Bank	1971	1972	1973	1974	1975	1976	1977
Bank of Nova Scotia	*11	*14	*11	*19	*38	*41	52
Canadian Imperial Bank of Commerce	2	5	6	8	21	28	34
Royal Bank	22	20	24	32	46	43	55
Toronto Dominion		8	11	20	23	23	28
Bank of Montreal						*24	

*Estimated

Source

Various Annual Reports

Table 5.8
International Assets (\$Billions) of Canadian Banks

Year	B. of Montreal		B. of Nova Scotia		Toronto Dominion		CIBC		Royal Bank	
	Intrbknk Loans	Intrbknk Loans	Intrbknk Loans	Intrbknk Loans	Intrbknk Loans	Intrbknk Loans	Intrbknk Loans	Intrbknk Loans	Intrbknk Loans	Loans
1977	2.5	3.9	4.6	4.9	3.5	3.	4.7	3.2	5.	5.4
1976	2.	2.9	4.	3.9	3.2	2.4	4.5	2.5	4.7	4.1
1975	1.4	2.5	2.9	3.7	2.6	1.9	3.6	2.1	4.	3.5
1974	2.7	2.2	2.8	3.	2.5	1.6	2.8	1.4	3.3	3.2
1973	2.7	1.4	2.3	1.6	2.2	1.	2.8	.9	4.5	1.8
1972	1.5	1.2	1.8	1.4	1.4	.6	1.5	.7	2.9	1.4
1971	1.5	1.0	1.0	1.4	1.1	.6	1.5	.7	2.3	1.5
1970	1.4	.8	1.	1.4	.9	.6	1.6	.5	2.4	1.3
1969	1.3	.6	.9	1.3	.9	.3	1.	.5	2.2	1.1
1968	.6	.4	.5	1.1	.6	.3	.5	.4	1.	.7
1967	.5	1.5	1.5	.9	.2	.2	.4	.4	.8	.6
1966	.3	.4	.2	.8	.2	.2	.2	.4	.5	.7

Source

Canada. Department of Finance. Statements of Assets and Liabilities: Chartered Banks of Canada. Ottawa, various issues.

the profits of the Bank of Nova Scotia have been substantially more than that of the CIBC. The profits of the CIBC only began to rise in the last three years as they built up their commercial loan business. This loan business has come only after they took a new policy in 1972 to expand actively their international business.

All the Canadian banks have been shifting towards the more lucrative commercial loan business. By the end of 1977 the banks had their interbank business down to 46% of F.C.A. During the seventies, the banks have built-up their international wholesale networks, increased their syndications and since 1974 the U.S. market has been reopened to the Canadian banks. In the years following 1967 the Canadian banks were able to extend their international networks on the basis of their strength in the interbank market. Their activity in this market was a good introduction to the syndications markets where the large U.S. banks led the way. Canadian banks actively took participations in the loans and lent their name as co-managers. In 1978 they really began to move forward in this market as lead and co-managers on many syndicated loans. (See Tables 3.3 and 3.4)

The international networks are also a particularly good example of the banks' relative dependence on the

interbank market. This dependence can be shown by Appendix F and G which illustrate the geographical dispersion of Canadian banking offices in Asia and Europe respectively. In Asia the Bank of Nova Scotia has the area covered with branches, subsidiaries and representatives while the CIBC is confined to Tokyo plus the two financial centres of Singapore and Hong Kong. The same type of situation is true in Europe where the Bank of Nova Scotia and to a lesser extent the Royal Bank have blanketed the continent. The Bank of Montreal has some offices outside the three major centres of London, Paris and Frankfurt but they tend to be representative offices which are not able to solicit as much local commercial business. The Bank of Nova Scotia and the Royal Bank did not have these good networks prior to the sixties. But the building of these networks has allowed the two banks to obtain considerable good commercial business and lower their relative dependence on the interbank market.

After 1973 the Bank of Montreal drastically reversed its trend into the interbank market by increasing its participation in Eurocredits. This type of business can be handled by a few branches in international financial centres. Table 5.8 shows that the CIBC and Toronto-Dominion are also shifting out of the interbank assets. Table 3.3

Chart 5.1

The Interbank Dependence of U.S. and
Canadian Bank Assets

shows that in Europe these two banks are also becoming very important in the syndication market.

Conclusions

A number of points seem clear concerning the relative importance of the interbank market in the internationalization of U.S. and Canadian banks. Chart 5.1 shows that interbank assets increased in importance for both U.S. and Canadian banks between 1966 and 1973. But the U.S. banks were always much less dependent than Canadian banks on this market. There has also been differences among the banks of each banking system. Generally speaking, the more internationalized a bank, the less dependent the bank is on the interbank market.

As the banks lowered their dependence on the interbank market, they have increased their amounts of international commercial loans. Some banks have accomplished this change by specializing in Eurocredit participations (Bank of Montreal, Wells Fargo, Security Pacific). These banks tend to have small international networks of branches and subsidiaries. The banks with the best networks of branches and subsidiaries tend to have the better ratio of international commercial loans. The most internationalized U.S. banks are strong in not only Eurocredit participations

but also loans to host country residents via branches and subsidiaries. For example, Citicorp is generally the number one or number two bank in managing Eurocredits. But Citicorp was also the leading bank in overseas loans in foreign currency. 46% of Citicorp's international loans were in foreign currency compared to 25% for the U.S. aggregate data. Foreign currency loans for U.S. banks is a good indication that the loans were via a host country branch or subsidiary.

Among the Canadian banks, the Royal Bank and the Bank of Nova Scotia, with the best foreign networks, have relatively the best amounts of commercial loans. But their ratios are still not as good as the U.S. banks. The U.S. banks seem to have more international commercial loans than Canadian banks for two reasons. First, the Canadian banks until 1978 lagged far behind the U.S. banks in the Eurocredit syndications. The Canadian banks were late in orienting themselves towards this merchant bank type of activity. Second, the U.S. banks have developed more regular commercial loan business within host countries. There are a number of reasons to support this point. The more internationalized U.S. banks have more local presence, especially in Europe which is the most important wholesale market for all international banks. (see Appendixes

F and I) In the host countries, the U.S. banks built their portfolios on the basis of their relationship with U.S. MNE's. Although the Canadian banks had good MNE expertise relative to European banks, they still were not as specialized as the U.S. wholesale banks. The U.S. banks were then able to develop business with host country firms.

In the U.K., U.S. banks used their multinational connections as their first source of overseas business but after prudent research they began marketing their services to U.S. customers.²⁰ By 1977 60% of the commercial customers of First Chicago in the U.K. were British.²¹ In 1976 Chemical Bank reported that the bank had impressive growth in relationships with indigenous companies in Europe and these loans now represented a substantial portion of their corporate portfolio in Europe.²²

The U.S. banks also increased their commercial loan business through greater use of specialized subsidiaries. The merchant bank has already been discussed as an important vehicle for managing Eurocredits. U.S. banks have also penetrated the markets with leasing and factoring subsidiaries. Chemical Bank which has been developing local business in Europe has a branch and a leasing subsidiary in most western European countries. Chemical's leasing

subsidiaries are important for penetrating local markets because "they provide smaller amounts than are available through branches and, therefore, give the bank a flexible vehicle for developing profitable business with medium size European companies."²³

Indirectly the interbank market has been very important for Canadian banks. Interbank assets have given the Canadian banks a solid base of international assets from which to branch out into other types of business. From this solid base, Canadian banks have been able to move out and utilize their past expertise with MNE's. They have also been able to utilize interbank funds to increase their eurocredit participations.

Notes

1. Dufey, International Money Markets, p. 222.
2. Revell, British Financial System, p. 295..
3. Ibid.
4. Robinson, Multinational Banking, p. 194.
5. Ibid.
6. Channon, British Banking Strategy, p. 157.
7. Dufey, International Money Markets, p. 218.
8. Genie D. Short and Betsy B. White in an article in the Federal Reserve Bank of New York Quarterly Review also net out head office claims on foreign branches as interbank assets in their attempts to ascertain actual U.S. bank claims on final foreign borrowers. Short, "International Bank Lending," p. 44.
9. Dufey, International Money Markets, p. 227.
10. Bank America Corporation, Annual Report, 1977.
11. Royal Bank of Canada, Annual Report, 1977.
12. Clendenning, The Eurocurrency Markets, p. 124.
13. Bank of Nova Scotia, A Submission to the Royal Commission on Corporate Concentration, p. 20.
14. CIBC, Annual Report, 1975.
15. Bank of Nova Scotia, Annual Report, 1975.
16. Royal Bank of Canada, Annual Report, 1975.
17. Marine Midland Corporation, Annual Report, 1976.
18. Toronto-Dominion Bank, Annual Report, 1970.
19. Bank of Montreal, Annual Report, 1975.

20. Channon, British Banking Strategy, p. 162.
21. Ibid., P. 163
22. Chemical Bank, Annual Report, 1976.
23. Ibid.

CHAPTER VI

CONCLUSIONS

The key factor which has helped to differentiate the internationalization of U.S. and Canadian banks is the multinational enterprise. This paper has studied four important factors which have influenced internationalization: pre-World War II activities of the banks; home country banking regulations; the multinational enterprise; and the interbank market. Independently each factor has had some influence on the internationalization of U.S. and Canadian banks. But in all four chapters, the MNE continues to crop up as an important element of the discussion.

In the late 19th and early 20th century, the banks of both countries began their overseas expansion by following in the footsteps of home country firms' trade and investment. By the 1950's the Canadian banks had branches in London and New York and three of the banks had Latin American and Caribbean networks. But the foreign networks of the four major U.S. banks were more widespread around the globe and/or in more strategic commercial and financial centres. This difference was probably related to the fact that even prior to World War II, the U.S. had more MNE's than Canada. The strategic network of foreign branches

gave the same banks a headstart over other U.S. and Canadian banks, during the internationalization of the late 1960's and early 1970's. As U.S. MNE's increased in number and extended their foreign investments, the major U.S. banks could offer their clients global financial services through their foreign networks.

During the more recent period of internationalization, home country banking regulations have not directly given rise to significant differences in the internationalization of the two sets of banks. The international activities of U.S. banks are covered by more home country regulations than the same for Canadian banks but the U.S. banks have not been impeded because the U.S. laws have not been negative in nature. Both U.S. and Canadian banks have circumvented regulations by using multiple types of foreign investments: branches, representative offices, subsidiaries and affiliates. The U.S. banks have been the leaders in this field, using specialized subsidiaries to engage in various forms of investment banking and to introduce new financial products to the international markets.

The most important regulatory influence has been the indirect influence of regulations on the development of U.S. wholesale oriented banks versus the retail type banks of Canada. U.S. restrictions on branching have isolated the

major U.S. banks in large commercial and financial centres which contained the head offices of U.S. MNE's. Subsequently, the large U.S. banks have developed corporate banking divisions which have specialized in large U.S. corporate clients. The same specialist expertise has given the U.S. banks an advantage in the international markets because many of their corporate clients became MNE's and because other international customers were also MNE's or large host country corporations. Using the terminology of H.G. Grubel,¹ it can be said that U.S. banks use "management technology and marketing know-how developed for domestic use, at very low marginal cost abroad". Not only the four major U.S. banks have developed corporate expertise but also the other U.S. banks in the sample. During the internationalization of the 1960's, the smaller U.S. banks did not have the networks but they had the expertise to work with the MNE. The four major U.S. banks have become the most internationalized banks in the world due to their combination of both wholesale expertise and an early foreign network.

The Canadian banks have been slow to develop specialized corporate banking divisions because Canadian regulations encouraged the development of retail branch banking. Retail expertise has been used in the developing countries where

the Canadian banks have kept pace with U.S. banks but the major growth in international banking has taken place in the developed countries with wholesale customers. At this point in time, "multinational retail banking" has not been a significant area of growth for U.S. and Canadian banks. Canadian banks have tended to deal with their corporate customers through the branch system and thus have been slow to centralize and specialize in industrial sectors. Therefore, Canadian banks have been put at a disadvantage in dealing with the MNE and in such new international financial products as project finance which demand sophisticated technical and financial engineering.

Another factor which has differentiated the internationalization process has been the fact that the U.S. has been the world's most important home country for MNE's, while Canada has been the world's most important host country for MNE's. U.S. MNE's developed international financial needs during the 1960's and U.S. bankers perceived that if they did not service the overseas financial requirements of their corporate clients, they would also lose their domestic market share. Therefore, the four major U.S. banks expanded their international networks and the other U.S. banks began to develop foreign networks to service their corporate clients.

Since Canada contains subsidiaries of many of the world's MNE's, Canadian banks have developed some relationships with MNE's which they have been able to take advantage of in the international markets, especially in the U.S. During the 1950's Canadian banks began to spread out from New York to the four corners of the U.S. in order to encourage investment in Canada by U.S. MNE's. As they developed banking relationships with U.S. MNE's, they raised the level of corporate loans in the U.S. Although, U.S. capital controls inhibited growth by Canadian banks, in the U.S. from 1969-1974, the U.S. is still the most important international commercial loan market for Canadian banks in terms of both assets and offices.

Outside of North America the MNE expertise which Canadian banks have developed gives them an advantage compared to foreign banks but not to U.S. banks. Unlike the U.S. banks, the Canadians have not developed specialized products and functions to service the international financial needs of MNE's. Instead, they seem to have slowly followed the lead of the U.S. banks and only developed those areas which the U.S. banks have made attractive.

The international strategy of the Canadian banks seems to have worked reasonably well because the Canadian banks have been able to build their international wholesale business

on the basis of their strength in the Eurodollar interbank market. The retail strength and stability of the Canadian banks has made them attractive in the eyes of international banks and, therefore, they have received deposits at the lowest rates. Subsequently, Canadian banks have used the deposits in interbank assets and in growing commercial loan portfolios.

Among both U.S. and Canadian banks, the banks with the larger foreign networks tend to be less dependent on the interbank market. This relation is true among both U.S. banks and among Canadian banks. Except for Eurocredit syndications, an overseas branch or subsidiary presence is necessary in order to develop a good commercial loan business. But most U.S. banks are less dependent than Canadian banks are on the interbank market. The U.S. banks have avoided this dependence through earlier and greater use of eurocredit participations. And the U.S. banks were able to develop their international business on the basis of loans to their MNE clients. U.S. banks have also been more aggressive in the introduction of new products and specialized subsidiaries which have helped to build commercial loan portfolios.

The organizational structures of the banks reflect the differences in the internationalization of U.S. and Canadian

3 3

OF/DE

banks. Citicorp, the most internationalized bank in the world, has the most multinational structure. Citicorp is divided along product lines and each division has global responsibility. The catalyst in this change was the development of a special division cutting across geographical and product divisions in order to service the global needs of MNE's. Other U.S. banks seem to be undergoing the same evolution with the development of their own MNE divisions.

Canadian banks tend to be still national banks with considerable international business. Canadian banks are still basically structured along the lines of domestic versus international divisions. The Royal Bank has introduced a new division with global responsibility for Canadian MNE's. But the growth of this division is limited because relative to the U.S. firms, Canadian MNE's are much smaller and fewer in number.

Multinational Retail Banking: The Wave of the Future?

The internationalization of U.S. and Canadian banks during the past two decades has mainly consisted of wholesale banking. But there are signs that multinational retail banking may be the wave of the future. The Chairman of the most internationalized bank in the world stated

In July 1978 that "consumer finance was the latest area of specialization by Citicorp on a world-wide basis".²

Chapter 2 has shown that retail banking by Canadian and U.S. banks in developing countries is on the decline. In the developed countries, the U.S. and Canadian banks have had some success and some failures but in early 1979 there was an interesting turn of events.

Bank of America has had an 86 branch subsidiary bank in Italy since 1955 and now has a 24 branch bank in Germany and a 24 branch finance company in Canada. Citicorp controls a 230 branch and a 13 branch commercial bank in Germany. But Citicorp failed miserably in the U.K. with a consumer finance company because U.K. banks responded quickly to this threat. First National Bank of Boston and Chase Manhattan were forced to rethink similar expansion plans. Wells Fargo lost money on a consumer finance company in Germany and Chase Manhattan could not penetrate the same market with its Familienbank S.A.

The Canadian banks have been building their retail networks in the U.S. The CIBC has expanded to 5 branches in Oregon and Washington and has a 24 branch subsidiary bank in California. The Bank of Montreal and the Toronto-Dominion Bank have 3 branch subsidiaries also in California. The latest and most interesting investment

has been the proposed purchase by the Bank of Montreal of the 89 branch retail network of the Bankers Trust Co.

Bankers Trust cannot continue to compete in the New York retail market.³ Citicorp has increased the retail competition through a drive to offset falling wholesale business by turning to retail customers.⁴ Citicorp has raised retail competition by introducing automated banking but the Bank of Montreal should have no problem competing because "in terms of mechanization the Bank of Montreal is probably second only to Citibank in this hemisphere".⁵ The Bank of Montreal also has more retail experience than Citicorp. The Bank of Montreal has 1,234 domestic branches compared to 308 for Citicorp. If the New York state banking authorities and the FRB approve the sale, it may herald a new path of investments for Canadian banks because they all have extensive retail expertise.

Since the U.S. banks in the sample were generally wholesale banks, they had an advantage in the international wholesale markets. It is logical that Canadian banks have an advantage in multinational retail banking because of their domestic retail strength. Already Canadian banks have had some success in both California and Oregon where branching regulations are very similar to the regulations in Canada. If the developed countries do not pass restrictive legislation

concerning this type of investment, then the Canadian banks may be leaders in multinational retail banking just as the U.S. banks have dominated in multinational wholesale banking.

A trend towards multinational retail banking could also have repercussions in Canada. The California banks, especially Bank of America, have retail experience because their branching regulations are similar to Canada. Under the proposed new banking legislation and probable government policy, foreign banks would be limited to 5 branches in Canada. But Bank of America already has 29 offices in Canada, including 24 branches of Finance America. And according to John Holt, Representative of Bank of America in Canada, "We would like to tie together our group here including Finance America."⁶ Bank of America would have an instant retail branch network in Canada or it could also be said that through Finance America the Bank of America already has a retail network in Canada.

Notes

1. Grubel, "Multinational Banking," p. 351.
2. Clarke, "Citibank's Walt Writson," p. 92.
3. "New York's New Retail Bank," The Banker, p. 112.
4. "Glory Days are Over," Business Week, p. 65.
5. "Ici On Parle Argent," Forbes, p. 39.
6. Charles Davies, "The Foreign Bank Invasion," Canadian Business, April 1979, p. 59.

Appendix A

Bank Sample

	World Rank ^a by Total Assets	International ^b Assets Total Assets	Total ^b Assets 1977
U.S. ^c		%	\$U.S. Billions
Bank America Corp.	1	42	82
Citicorp	2	64	77.1
Chase-Manhattan Corp.	6	46	53.2
Manufacturers- Hanover Corp.	20	45	35.8
J.P. Morgan & Co. Inc.	22	60	31.7
Chemical N.Y. Corp.	24	41	30.7
Continental-Illinois Corp.	41	40	25.8
Bankers-Trust N.Y. Corp.	48	45	23.5
First Chicago Corp.	49	36	22.6
Security Pacific Corp.	59	26	18.7
Wells Fargo & Co.	71	19	15.4
Crocker Nat. Corp.	83	23	12.4
Marine Midland Banks, Inc.	86	32	12.1
First Nat. Boston Corp.	95	45	10.3
CANADIAN ^d		%	\$CDN. Billions
Royal Bank of Canada	23	31	34.4
Canadian Imperial Bank of Commerce	30	26 est.	32
Bank of Montreal	51	26	25.2
Bank of Nova Scotia	55	44 est.	22.4
Toronto-Dominion Bank	67	37	19.1

^a"Top 300 in World Banking - Annual Review,"
The Banker 128 (June 1978): 65.

^bfrom Annual Reports

^cThe U.S. sample consists of 14 of the 16 largest commercial banks in the U.S. Both the Charter New York Corp. (Irving Trust) and Western Bancorporation (United California Bank) were approached for data but they did not send any material. The U.S. Congress House Committee on Banking Finance and Urban Affairs uses the same sample as this paper minus Crocker and Security Pacific. A Salmon Bros. study adds Charter N.Y. Corp. but subtracts Crocker.

^dThe sample of five Canadian banks have almost 90% of the chartered banking assets in Canada. The sixth largest bank in Canada has only 1/5 the assets of the Toronto-Dominion Bank.

Appendix B

Mergers and Acquisitions of U.S. Banks Since 1950

<u>Bank</u>	<u>Year</u>	<u>Merger or Acquisition</u>
Chase Manhattan Bank	1955	Chase National Bank and Bank of Manhattan
Bankers Trust Company	1950-65	multiple
First National City Bank	1955	National City Bank and First National Bank
Chemical Bank	1954	Corn Exchange Bank and Chemical Bank
	1959	again with the New York Trust Co.
Continental Illinois Nat. Bank & Trust Co.	1961	Continental Illinois and City National Bank
Crocker Nat. Bank	1956	Grocker First National and Anglo California
	1963	Crocker Anglo and Citizens National Bank
Manufacturer Hanover Trust	1961	Hanover Bank and Manufacturers Trust Co.
Morgan Guaranty Trust	1959	Guaranty Trust and J.P. Morgan
Security Pacific	1968	Security Trust and Savings and Pacific National Bank
Wells Fargo Bank	1960	Wells Fargo Bank and Union Trust and American Trust St.

Appendix C

The United States Offices of Canadian Banks; December 1978

Branches of Agencies	Subsidiaries	Representatives
Bank of Nova Scotia	New York San Francisco Atlanta Boston Miami Portland	Chicago Houston Los Angeles New York Cleveland
Toronto Dominion	New York San Francisco	Chicago Houston Los Angeles New York Pittsburgh San Francisco
Bank of Montreal	New York San Francisco	Chicago Houston Los Angeles New York Pittsburgh San Francisco
Royal Bank of Canada	Portland New York San Francisco	Chicago Dallas Los Angeles New York

Appendix C
Continued

Branches or Agencies	Subsidiaries	Representatives
Canadian Imperial Bank of Commerce	New York Portland (4) Seattle Atlanta	Chicago Dallas Los Angeles San Francisco

Appendix D

Foreign Branch Interbank Liabilities of U.S. Banks

Year	A		B		C		D		E ^a	
	Total Foreign Branch Liabilities	\$Billions	Total Liabilities to other Foreign Branches of Parent Bank	\$Billions	Total Liabilities to other Foreign Private Banks	\$Billions	Total Foreign Branch Liabilities to Parent	\$Billions	Net Foreign Branch Liabilities	\$Billions
1977	259.1		53.2		94.1		24.9		205.9	
1976	219		44.4		83.9		19.9		174.6	
1975	176.5		34.1		72.3		12.2		142.4	
1974	151.9		26.9		65.7		5.8		125	
1973	121.9		18.2		65.6		1.6		103.7	
1972	78.2		11.1		41.2		1		67.1	
1971	61.3		10.7		29.8		.7		50.6	
1970	47.4		6.4		24.8		.7		41	
1969	35.3		3.4		20.5		.7		31.9	
1968	22.8		2.7		9.6		1.2		20	
1967	15.3		1.5		5.7		1		13.8	
1966	12.4		1.1		4.4		.8		11.3	
1965	8.9		.8		2.7		.9		8.1	

Note ^a Column E = A-B, this procedure eliminates double counting

Sources

United States. Board of Governors of the Federal Reserve System. Federal Reserve Bulletin, various issues.

United States. Department of the Treasury. Treasury Bulletin, November 1970.

Appendix E

The International Assets of United States Banks

Year	A Head Office Short Term Claims on Foreigners \$Billions	B Foreign Branch Liabilities to Parent \$Billions	C Head Office Long Term Claims on Foreigners \$Billions	D Foreign Interbranch Liabilities \$Billions	E Total Assets of Foreign Branches \$Billions	F ^c Net Inter- national Assets of U.S. Banks \$Billions	G Total Assets of U.S. Banks \$Billions
1978 ^a	105.5	24.5	b	61.6	287.4	306.8	1,208 ^d
1977	79.9	24.5	12.6	53.2	259.1	273.9	1,166
1976	69.1	19.9	11.9	44.4	219	235.7	1,004
1975	50.2	12.2	9.5	34.1	176.5	189.9	945
1974	39.1	5.8	7.2	26.9	151.9	165.5	920
1973	20.7	1.6	6.	18.2	121.9	128.8	835
1972	15.7	1.	5.1	11.1	78.2	86.9	739
1971	13.3	.7	3.7	11.7	61.3	65.9	640
1970	10.8	.7	3.1	6.4	47.4	54.2	576
1969	9.7	.7	3.3	3.4	35.3	44.2	531
1968	8.7	1.2	3.6	2.7	22.8	31.2	500
1967	8.7	1.	3.9	1.5	15.3	25.4	451
1966	7.9	.8	4.2	1.1	12.4	22.6	403
1965	7.7	.9	4.5	.8	8.9	19.4	377
1960	3.6		1.7		3.5 ^e	8.	258

Appendix E
Continued

Year	H ^f Ratio of International Assets to Total Assets	I ^g Ratio of Foreign Branch Assets to Net International Assets
	%	%
1978	25.4	73.6
1977	23.5	75.2
1976	23.5	74.1
1975	20.1	75.
1974	18	75.5
1973	15.4	80.5
1972	11.8	77.2
1971	10.3	75.3
1970	9.4	75.6
1969	8.3	72.2
1968	6.2	64.4
1967	5.6	54.3
1966	5.6	50.3
1965	5.1	41.8
1960	3.1	

Notes^aSeptember 1978

^bUnder new FRB accounting methods commencing April 1978, there is no differentiation between short and long term claims and they do not include foreign currency claims. Therefore, the figure in Column A for September 1978 represents both short and long term claims plus an estimated 2.2 Billion in foreign currency claims.

^cColumn F = (A+C+E) - (B+D). This procedure eliminates double counting and produces the true level of international assets. Subsequent to this research a similar analysis was published by Genie D. Short and Betsy B. White. "International Bank Lending: A Guided Tour Through the Data." Federal Reserve Bank of New York Quarterly Review 3 (Autumn 1978): 39-47.

Appendix E
Continued^d June 1978^e estimated^f Column H = F/G ^g Column I = $(E-D)/F$ Sources

United States. Board of Governors of the Federal Reserve System. Federal Reserve Bulletin, various issues.

United States. Department of the Treasury. Treasury Bulletin, November 1970.

Aliber, R.Z. "International Banking: Growth and Regulation." Columbia Journal of World Business 10 (Winter 1975): 9-15.

Appendix F

The European Networks of Canadian Banks

Country	Bank of Nova Scotia	Royal Bank	Toronto Dominion	Bank of Montreal	CIBC
United Kingdom	BR(6), JV, SU(2), REP, MB	BR(2), SU, JV(2), MB	BR(2), SU, JV	BR	BR(2), JV, SU(2)
Germany	BR	REP, SU	BR	REP, AF	BR
France	AF, REP	REP, SU, JV		REP, AF	BR, AF, JV, SU
Netherlands	BR, SU	REP, SU		SU	
Guernsey	SU(2)	SU			
Belgium	BR	AF			REP
Greece	BR(2)	SU			
Norway	REP				
Ireland	BR, SU		AF		
Luxembourg				JV	JV
Italy				REP	REP
Switzerland		SU			REP

196:

Appendix F
Continued

Country	Bank of Nova Scotia	Royal Bank	Toronto Dominion	Bank of Montreal	CIBC
---------	---------------------	------------	------------------	------------------	------

Spain

REP

2

Key

BR - Branch
 SU - Subsidiary (over 50%)
 AF - Affiliate (over 10%)
 REP - Representative
 MB - Merchant Bank
 JV - Joint Venture Bank

Appendix G

The Asian Networks of Canadian Banks

Country	Bank of Nova Scotia	Royal Bank	Toronto Dominion	Bank of Montreal	CIBC
Korea	BR	REP			
Japan	REP	REP	REP	REP	REP
Taiwan			BR		
Indonesia	REP		REP	REP	
Philippines	BR				
Malaysia	AF, BR	AF	AF		
Singapore	BR, AF	BR	BR	BR	BR
Hong Kong	BR, SU	SU, AF, BR	REP, SU, BR	SU, BR	REP, SU, AF, BR
Thailand		AF	REP, AF		

Key

- BR - Branch
- SU - Subsidiary (over 50%)
- AF - Affiliate (over 10%)
- REP - Representative

Guidelines For Canadian Chartered Banks
Concerning Banking With U.S. Residents

Statement: Canadian Minister of Finance, May 31, 1968

1. The total of a bank's foreign currency claims on residents of countries other than Canada and the United States should not rise above the level of the end of February 1968 unless the increase is accompanied by an equal increase in its total foreign currency liabilities to residents of countries other than Canada and the United States.
2. If there should be a decline in the total of a bank's foreign currency liabilities to residents of countries other than Canada and the United States from the level at the end of February 1968 the bank should achieve an equal reduction in its total foreign currency claims on residents of countries other than Canada and the United States as quickly as the liquidity of such assets will permit.
3. Each bank should allow an increase in its U.S. dollar liabilities to residents of the United States from the level at the end of February 1968 only to the extent that the increase is fully matched by the sum of (1) the increase from that date in the bank's U.S. dollar claims on residents of Canada, (2) the decrease from that date in the bank's U.S. dollar liabilities to residents of Canada, and (3) the decrease from that date in the bank's own spot position in U.S. dollars.

Source

Bank of Canada. Annual Report. Ottawa, 1968.

Appendix I

The Foreign Branch Networks of U.S. Banks

	U.K.	Europe	America & Latin Caribbean	Asia	Japan	Africa & Middle East	Total
Bank America	5	20	49	29	4	1	98
Chase Manhattan	3	18	57	13	2	9	102
Citicorp	5	24	132	39	4	13	219
Manufacturers	2	6	1	3	1	2	15
Chemical	1	5	1	2	1	1	11
J.P. Morgan	2	10	1	3	1		17
Bankers Trust	3	2	2	1	1	1	10
Continental	2	10	1	2	2		17
First Chicago	5	11	4	3	1	4	28
Wells Fargo	1	1	1	1	1		5
First National Boston	2	3	24		1		30
							200

Appendix I
Continued

	U.K.	Europe	Caribbean & Latin America	Asia	Japan	Africa & Middle East	Total
Marine Midland	1	1	2	1	1		6
Crocker	1		1	1	1		4
Security Pacific	1	2	1	1	1	1	7

Sources

Annual Reports of the Banks

U.S. Congress. House. Committee on Banking Currency and Housing. FINE:
Financial Institutions and the Nations Economy, A Compendium of papers
prepared for the FINE study, Book 2. Washington, D.C.: U.S. Government
Printing Office, 1976.

Banker Research Unit. Who Owns What in World Banking 1976-1977. London:
Banker Research Unit, 1976.

Appendix J

International Assets of Canadian Banks
\$CDN. Billions

	Foreign Currency Assets	Total Assets	Foreign Currency Assets <u>Total Assets</u> %
Dec. 1950	.8	9.5	8.4
1951	.9	9.6	8.9
1952	1.	10.2	9.6
1953	1.1	10.7	10
1954	1.1	11.4	10
1955	1.1	12.7	8.9
1956	1.5	13.4	11.1
1957	2.	14.2	13.8
1958	2.2	15.8	13.7
1959	2.4	15.8	15.1
1960	2.7	16.9	16.1
1961	3.5	19.2	18.3
1962	3.9	20.3	19.1
1963	4.2	22.1	19.2
1964	5.2	23.9	21.7
1965	5.	25.9	19.5
1966	5.6	28.2	20
1967	6.5	31.7	20.4
1968	7.8	36.7	21.2
1969	11.6	42.6	27.3
1970	13.7	47.3	28.9
1971	14.5	54.4	26.6
1972	16.6	63.2	26.2
1973	23.3	79.8	29.2
1974	28.5	97.	29.4
1975	31.2	108.4	28.8
1976	37.6	126.4	29.8
1977	47.7	150.5	31.6
Nov. 1978	65.2	184.9	35.3

Appendix J
Continued

203.

Note.

The international assets of Canadian banks are represented by foreign currency assets. Canadian currency is used very little for trade financing or in the eurocurrency markets. The majority of the assets of chartered banks held with foreigners as recipients, are denominated in U.S. dollars and a few other important currencies. A small percentage of foreign currency loans are to Canadian residents but not sufficient to distort the data.

Source

Bank of Canada. Bank of Canada Review. Ottawa, various issues.

Appendix K

International Earnings of U.S. Banks \$U.S. Millions

	1971	1972	1973	1974	1975	1976	1977
Bank America	34	40	53	74	145	134	135
Citicorp	72	110	152	193	246	293	313
Chase Manhattan	43	50	68	89	101	82	80
Manufacturers Hanover	19	24	35	59	63	80	86
J.P. Morgan	32	42	68	80	115	107	119
Chemical	12	9	13	31	44	41	47
Bankers Trust	11	19	26	36	38	34	49
Continental	2	13	17	4	16	30	36
First Chicago	5	9	11	3	36	16	23
Security Pacific	1	3	6	9	8	5	11
Wells Fargo							
Crocker							
							204
							22
							12

Appendix K
Continued

	1971	1972	1973	1974	1975	1976	1977
Marine Midland			10	7	4	2	4
First National Boston	4	5	5	5	7	14	18

Sources

Hall, William. "United States International Earnings Tumble." The Banker 127 (May 1977): 109-113.

Various Annual Reports of the banks.

Appendix L

World-Wide Loan Distribution of U.S. Banks

	Europe %	Africa & Middle East %	Asia %	Latin America & Caribbean %	North America %	Total Loans \$Billions
First Boston	27	4	16	42	10	1.4
Crocker	25	11	22	41		1.4
Marine Midland	29	6	25	38		2.4
Wells Fargo	16	10	22	41	11	2.4
Security Pacific	28	8	24	28	8	2.5
First Chicago	42	13	14	21	10	4.5
Continental	31	6	17	23	23	4.8
Bankers Trust	44	10	17	29		6.3
Chemical	38	10	14	25	12	7.2
J.P. Morgan	52	3	13	32		10.3
Manufacturers- Hanover	45		21	30	3	10.7
Chase Manhattan	37	5	22	36		16.9

206.

Appendix L
Continued

	Europe	Africa & Middle East	Asia	Latin America & Caribbean	North America	Total
	%	%	%	%	%	Loans \$Billions
Bank America	44	8	22	27		18.1

Source

Annual Reports

Books, Articles and Documents

- Abrahams, P.P. The Foreign Expansion of American Finance and Its Relationship to the Foreign Economic Policies of the U.S., 1907-1921. New York: Arno Press, 1976.
- Aharoni, Yair. The Foreign Investment Decision Process. Boston: Harvard University, 1966.
- Aliber, R.Z. "International Banking: Growth and Regulation." Columbia Journal of World Business 10 (Winter 1975): 9-15.
- Aliber, R.Z. "Towards a Theory of International Banking." Federal Reserve Board of San Francisco Economic Review, Spring 1976, pp. 5-8.
- Altman, Oscar L. "Canadian Markets for U.S. Dollars." International Monetary Fund Staff Papers 9 (November 1962): 297-316.
- Baker, James C. and Bradford, M.G. American Banks Abroad: Edge Act Companies and Multinational Banking. New York: Praeger Publishers, 1974.
- Ball, Robert. "International Banking Gets the Team Spirit." Fortune, June 1972, p. 100.
- The Bank of Nova Scotia. The Bank of Nova Scotia. Toronto: Bank of Nova Scotia, 1932.
- The Bank of Nova Scotia. A Submission to the Royal Commission on Corporate Concentration. Toronto: Bank of Nova Scotia, February, 1976.
- The Banker Research Unit. Who Owns What in World Banking 1976-77. London: The Banker Research Unit, 1976.
- Banking Act, June 16, 1933. Documentary History of Banking and Currency in the United States, Vol. 4. Edited by Herman E. Kroos. New York: Chelsea House Publishers, 1969.
- Bareau, Paul. "The American Bank Invasion." Euromoney, May 1971, pp. 14-18.

- Bartlett, John. "American Bank Issues in the E.E.C." In Multinational Business Operations, edited by S.P. Sethi and J.N. Sheth. Pacific Palisades: Goodyear Publishing Co., 1973.
- Baum, D.J. The Banks of Canada in the Commonwealth Caribbean. New York: Praeger Publishers, 1974.
- Bee, R.N. "Looking Ahead at International Banking." Journal of Commercial Bank Lending 58 (March 1976): 31-35.
- Behrman, Jack N. Some Patterns in the Rise of the Multinational Enterprise. Research Paper 18. Chapel Hill: Graduate School of Business Administration, University of North Carolina at Chapel Hill, 1969.
- Bench, R.R. "How the U.S. Comptroller of the Currency Analyzes Country Risk." Euromoney, August 1977, pp. 47-57.
- Bertin, G.Y. "The Growth of Multinational Enterprises - A Look into Past and Future." In Multinational Enterprises - Financial and Monetary Aspects, edited by J.S.G. Wilson and C.F. Scheffer. Leiden: A.W. Sythoff, 1974.
- Bhattacharya, A.K. The Asian Dollar Market: International Offshore Financing. New York: Praeger Publishers, 1977.
- Binhammer, H.H. Money, Banking and the Canadian Financial System. 3rd ed. Toronto: Methuen Publications, 1977.
- Brimmer, A.F. and Dahl, F.R. "Growth of American International Banking: Implications For Public Policy." Journal of Finance 30 (1975): 341-363.
- Bruce, B.D. "The International Banking Activities of Canadian and American Banks: Experience and Prospects." M.B.A. Thesis, University of British Columbia, 1969.

Brunsdon, Peter. "The Edge Act in U.S. Banking."
The Banker 123 (February 1973): 143-152.

Callender, C.V. "Financial Aspects of the Economic
 Development of Jamaica, 1950-1958." Master's Thesis,
 University of Toronto, 1960.

Cambell, Mary. "The Multinational Banking Framework."
The Banker 121 (June 1971): 628-639.

Cambridge Research Institute. Trends Affecting the U.S.
 Banking System. Cambridge: Ballinger Publishing Co.,
 1976.

Canada. Bank Act 1954.

Canada. Bank Act, R.S., C.B-1.

Canada. Canada Deposit Insurance Corporation Act, R.S.,
 c. C-3.

Canada. Department of Justice. A Consolidation of the
 British North America Acts, 1867-1965. Compiled by
 E.A. Driedger. Ottawa: Department of Justice,
 1967.

Canada. Inquiries Act, R.S., c. I-13.

Canada. Royal Commission on Banking and Finance. Report
 of the Royal Commission on Banking and Finance.
 Ottawa, 1964.

Canada. Senate of Canada. Committee on Banking, Trade
 & Finance. Proceedings, Second Session, Thirtieth
 Parliament, 1976-77, Issue No. 25.

Canada. Senate of Canada. Committee on Banking, Trade
 & Finance. Proceedings, Fourth Session, Thirtieth
 Parliament, 1978, Issue No. 3.

Canadian Bankers Association. As Others See Us -.
 Toronto: The Canadian Bankers Association, 1976.

- Carreau, D.G. "The Interest Equalization Tax." Journal of World Trade Law 2, No. 1 (1968): 47-88.
- Chandler, A.P. Strategy and Structure. Garden City: Anchor Books, 1962.
- Channon, Derek F. British Banking Strategy and the International Challenge. London: Macmillan Press, 1977.
- Cheng, H.S. "U.S. West Coast as an International Financial Centre." Federal Reserve Bank of San Francisco Economic Review, Spring 1976, pp. 9-19.
- Clarke, William. "Why Citibank's Walt Wriston is looking forward to the 1980's." Euromoney, July 1978, pp. 84-93.
- Clendenning, E. Wayne. The Euro-Currency Markets and the International Activities of Canadian Banks. Ottawa: Economic Council of Canada, 1976.
- Costanzo, G.A. "Citibank - Overseas Growth 1902-69." The Banker 119 (July 1969): 659-665.
- Courchene, Thomas J. Money Inflation and the Bank of Canada. Montreal: C.D. Howe Research Institute, 1976.
- Courchene, Thomas. "Recent Canadian Monetary Policy." Journal of Money Credit and Banking 3 (1971): 36-53.
- Dahl, F.R. "International Operations of U.S. Banks: Growth and Public Policy Implications." Law and Contemporary Problems 32 (Winter 1967): 100-130.
- Daniels, F.E. "American Banking Before the Turn." The Banker 108 (April 1958): 247-251.
- Davidson, John. "Canadian Banks Think Globally." The Canadian Banker and ICB Review 81, No. 1 (1974): 8-13.
- Davis, S.I. "How Risky is International Lending." Harvard Business Review 55 (January-February 1977): 135-143.

- Davis, Steven I. The Eurobank: Its Origins, Management and Outlook. London: The Macmillan Press Ltd., 1976.
- Davis, S.I. "U.S. Banks Abroad, One-Stop Shopping." Harvard Business Review 49 (July-August 1971): 75-84.
- Davis, S.I. "Whither the American Merchants." The Banker 126 (March 1976): 235-240.
- Dufey, Gunter and Ian H. Giddy. The International Money Market. Englewood Cliffs: Prentice-Hall, Inc., 1978.
- Dymsza, W.A. Multinational Business Strategy. New York: McGraw-Hill Book Co., 1972.
- Economic Council of Canada. Efficiency and Regulation: A Study of Deposit Institutions. Ottawa: Economic Council of Canada, 1976.
- Einzig, Paul. The Eurodollar System. London: Macmillan, 1970.
- Eng, Maximo. U.S. Overseas Banking - Its Past, Present and Future. New York: St. John's University, 1970.
- Faith, Nicholas. "Byzantine Banking: A Profile of Citicorp." The Bankers Magazine 220 (March 1976): 19-23.
- Fayerweather, John. The Mercantile Bank Affair. New York: New York University Press, 1974.
- Federal Reserve Act, Dec. 23, 1913. Documentary History of Banking and Currency in the United States, Vol. 4. Edited by Herman E. Kroos. New York: Chelsea House Publishers, 1969.
- Federal Reserve Act, Sept. 17, 1919. 'Documentary History of Banking and Currency in the United States, Vol. 4. Edited by Herman E. Kroos. New York: Chelsea House Publishers, 1969.
- Federal Reserve Act, Dec. 24, 1919. Documentary History of Banking and Currency in the United States, Vol. 4. Edited by Herman E. Kroos. New York: Chelsea House Publishers, 1969.

Finlayson, J.K. "The Royal Bank in the International Scene." The Business Quarterly 36, No. 1 (1971): 77.

Fischer, G.C. American Banking Structure. New York: Columbia University Press, 1968.

"Foreign Banks in London - Annual Review." The Banker 127 (November 1977): 53-204.

Fowler, T.V. "Big Business For the Banks." The Banker 127 (December 1977): 49-61.

Freedman, Charles. The Foreign Currency Business of the Canadian Banks: An Econometric Study. Ottawa: Bank of Canada, 1974.

Galbraith, J.A. Canadian Banking. Toronto: Ryerson Press, 1970.

"The Glory Days are Over at Citicorp." Business Week, 7 November 1977, pp. 64-70.

Gonzaga, Leo. "Easing Philippine Capital Rules." Far Eastern Economic Review, 26 September 1975, p. 62.

Grubel, H.G. "A Theory of Multinational Banking." Banca Nazionale Del Lavoro 123 (December 1977): 349-363.

Hanley, Thomas. "How Profitable are U.S. Banks Overseas Operations." The Banker 125 (September 1975): 1086-1089.

Heldring, Frederick. "The International Banking Function of U.S. Banks." In The Changing World of Banking, edited by H.V. Prochnow and H.V. Prochnow Jr. New York: Harper and Row, 1974.

Hendley, Jack. "Financial Institutions and the Growth of Multinational Corporations." In Multinational Enterprises - Financial and Monetary Aspects, edited by J.S. Wilson and C.F. Scheffer. Leiden: A.W. Sythoff, 1974.

Hendley, J. "Multinational Companies and the Banks." Midland Bank Review, May 1973, pp. 3-7.

Horvitch, Sonita. "Bank of Montreal to Shut Retail Branch in London." The Financial Post, 21 January 1978, p. 14.

Hurst, William and Van Vlieden. "International Relationships of U.S. Banks." In Bankers Handbook, rev. ed., edited by William Hubert Baughn. Homewood, Ill.: Jones Irwin, 1978.

Hutchinson, Harry D. Money, Banking and the U.S. Economy. Englewood Cliffs: Prentice-Hall Inc., 1975.

"Interview." The Banker 117 (November 1967): 916-924.

"Ici On Parle Argent." Forbes, 19 February 1979, pp. 38-39.

Johanson, Jan and Wiedersham-Paul, Finn. "The Internationalization of the Firm - Four Swedish Case Studies." Journal of Management Studies 12 (1975): 305-322.

Kelly, Janet. Bankers and Borders: The Case of American Banks in Britain. Cambridge: Ballinger Publishing Co., 1976.

Kindleberger, C.P. American Business Abroad. New Haven: Yale University Press, 1969.

Klopstock, Fred H. "Foreign Banks in the United States: Scope and Growth of Operations." Federal Reserve Bank of New York Monthly Review 55 (June 1973): 140-154.

Knickerbocker, F.T. Oligopolistic Reaction and the Multi-national Enterprise. Boston: Harvard University, 1973.

Koszul, Julien-Pierre. "American Banks in Europe." In The International Corporation; A Symposium, edited by C.P. Kindleberger. Cambridge: M.I.T. Press, 1970.

"Law Department." Federal Reserve Bulletin 10 (October 1975): 649-704.

Lees, F.A. Foreign Banking and Investment in the U.S.: Issues and Alternatives. London: Macmillan, 1976.

Lees, Francis A. International Banking and Finance.
New York: John Wiley & Sons, 1974.

Lees, F.A. "International Lending Strategies of Commercial Banks." Columbia Journal of World Business 10
(Winter 1975): 40-49.

Liddell, Andrew. "Syndicated Eurocredits: the Drift Towards the Big Banks." The Banker 126 (November 1976): 1221-1223.

Litvak, I.A. and Maule, C.J. "The Multinational Firm and Conflicting National Interests." Journal of World Trade Law 3 (May-June 1969): 308-318.

Litvak, I.A. and Maule, C.J. "The Multinational Firm: Some Perspectives." In The Multinational Firm and the Nation State, edited by Gilles Paquet. Don Mills: Collier-Macmillan Canada Ltd., 1972.

Magee, David. "Royal Strengthens Role in West Germany." The Financial Post, 21 January 1978, p. 9.

Main, Jeremy. "Our First Real International Bankers." Fortune, December, 1967, p. 143.

Mathis, F. John., ed. Offshore Lending By U.S. Commercial Banks. Washington: Bankers Association for Foreign Trade,

Mayer, Martin. The Bankers. New York: Weybright and Talley, 1974.

Mayer, Robert. "The Origins of the American Banking Empire in Latin America." Journal of Interamerican Studies and World Affairs 15 (February 1973): 60-76.

Mendelsohn, M.S. "Eurobond Survey." The Banker 126 (November 1976): 1235-1254.

Miossi, A.F. "Chicago As An International Financial Centre." The Banker 121 (November 1971): 1506-1508.

Moore, G.S. "International Growth: Challenge to U.S. Banks." National Banking Review 1 (1963): 1-14.

Munn, G.G. Encyclopedia of Banking and Finance, 7th ed.
Boston: Bankers Publishing Co., 1973.

Neufeld, E.P. The Financial System of Canada. New
York: St. Martins Press, 1972.

"New York's New Retail Bank." The Banker 129 (January
1979): 112.

Oppenheim, Peter K. International Banking. 2nd ed.
New York: American Institute of Banking, 1969.

Park, Yoon S. The Eurobond Market: Function and
Structure. New York: Praeger Publishers, 1974.

Parry-Williams, Emily. "Banking Services, Multinational
Needs." The Bankers Magazine 220 (April 1976):
43-46.

Peterson, R.A. "Interview." The Banker 118 (November
1968): 996-1006.

Phelps, C.W. The Foreign Expansion of American Banks.
1927. Reprint. New York: Arno Press, 1976.

Pilcher, R.A. "Factoring - A New Banking Service."
The Banker 122 (May 1972): 675-681.

Plasschaert, Sylvain. "Multinational Companies and Inter-
national Capital Markets." In Multinational Enterprises -
Financial and Monetary Aspects, edited by C.F. Scheffer
and J.S. Wilson. Leiden: A.W. Sythoff, 1974.

"The Politics of Banking." The Banker 127 (September 1977):
21-22.

Pringle, Robin. "Why American Banks Go Overseas."
The Banker 116 (November 1966): 770-785.

Rappleye, W. "Bank of America." The Bankers Magazine
220 (June 1976): 52-54.

"Recent Growth in Activities of U.S. Offices of Foreign
Banks." Federal Reserve Bulletin 62 (October 1976):
815-824.

Revell, Jack. The British Financial System. London: MacMillan, 1973.

Ritter, Lawrence S. Money. 3rd rev. ed. New York: Basic Books, 1977.

Robbins, Sidney M. and Stobaugh, R.B. Money in the Multinational. New York: Basic Books, 1973.

Robinson, Stuart W. Multinational Banking. Leiden: A.W. Sythoff, 1978.

Robock, S.H. "Overseas Financing For U.S. International Business." Journal of Finance 21 (1966): 297-307.

Rodriguez, Rita M. and Carter, E. Eugene. International Financial Management. Englewood Cliffs: Prentice-Hall Inc., 1976.

Rogers, F.L. "Canadian Banks Overseas." The Banker 121 (October 1971): 1216-1221.

Ross, Victor. A History of the Canadian Bank of Commerce. Vol. 2. Toronto: Oxford University Press, 1922.

Royal Bank of Canada. Submission to the Royal Commission on Corporate Concentration. Montreal: Royal Bank of Canada, 1975.

Rowley, A. "Bank Acquisition Under Scrutiny." Far Eastern Economic Review, 21 April 1978, p. 95.

Samuels, J.M.; Groves, R.E.; and Goddard, C.S. Company Finance in Europe. London: Institute of Chartered Accountants in England and Wales, 1975.

Sandler, Lind. "Are Banks Poaching in Corporate Finance?" The Financial Post, 1 October 1977, p. 35.

Scherer, Ron. "Chase Manhattan Bank." The Bankers Magazine 220 (September 1976): 40-43.

Schoeppler, Otto. "Merchant Banking: The New Look." The Banker 126 (August 1976): 953-957.

Schull, Joseph. One Hundred Years of Banking in Canada. Toronto: Copp Clark, 1958.

- Shay, R.P. and Greer, C.C. "Banks Move Into High Risk Commercial Financing." Harvard Business Review 46 (November-December 1968): 149-161.
- Shearer, R.A. "The Foreign Currency Business of Canadian Chartered Banks." The Canadian Journal of Economics and Political Science 31 (August 1965): 328-357.
- Shepherd, Sidney H. Foreign Exchange and Foreign Trade in Canada: An Outline. Toronto: University of Toronto Press, 1973.
- Short, Genie D. and White, Betsy B. "International Bank Lending: A Guided Tour Through the Data." Federal Reserve Bank of New York Quarterly Review 3 (Autumn 1978): 39-47.
- Stern, Siegfried. The United States in International Banking. 1951. Reprint. New York: Arno Press, 1976.
- Steuber, Ursel. International Banking. Leiden: A.W. Sythoff, 1976.
- Swoboda, A.K. "Multinational Banking: The Euromarket and Economic Policy." Journal of World Trade Law 5 No. 2 (1971): 121-130.
- Thoman, G.R. "How to Serve the MNC Market." The Banker 127 (August 1977): 90-96.
- Thoman, G.R. "International Banking Can Be Profitable For U.S. Regional Banks." Columbia Journal of World Business 10 (Winter 1975): 23-32.
- Thomson, R.M. "The Internationalization of Canadian Banks." The Canadian Business Review 3 (Autumn 1976): 19-21.
- Thornton, L.S. "Why the American Banks Come to London." The Banker 118 (October 1968): 895-901.
- "The Top 300 in World Banking." The Banker 127 (June 1977): 103-109.
- Trigge, A.L. A History of the Canadian Bank of Commerce, Vol. 3. Toronto: Canadian Bank of Commerce, 1934.

"United States Banking Organization Abroad." Federal Reserve Bulletin 42 (December 1956): 1284-1299.

U.S. Congress. House. Committee on Banking Finance and Urban Affairs. International Banking Act of 1977. Hearings on H.R. 7325, before the subcommittee on Financial Institutions, Supervision, Regulation and Insurance, 95th cong., 1st sess., 1977.

U.S. Congress. House, Committee on Banking Finance and Urban Affairs. International Banking Operations. Hearings before the subcommittee Financial Institutions Supervision, Regulation and Insurance, 95th cong., 1st. sess., 1977.

de Vallee, Patrice. "Financial and Monetary Aspects of Developing Multinational Enterprises." In Multinational Enterprises - Financial and Monetary Aspects, edited by J.S. Wilson and C.F. Scheffer. Leiden: A.W. Sythoff, 1974.

van Agtmael, Antoine W. "Evaluating the Risks of Lending to Developing Countries." Euromoney, April 1976, pp. 16-30.

von Clemm, Michael. "The Rise of Consortium Banking." Harvard Business Review 49 (May-June 1971): 125-142.

Van Vlieden, C.M. "New Era For International Banking." The Banker 121 (February 1971): 146-151.

Vernon, Raymond. Storm Over the Multinationals: The Real Issues. Cambridge: Harvard University Press, 1977.

Vollmer, D.V. "Financial Institutions and the Growth of Multinational Corporations - An American Point of View." In Multinational Enterprises - Financial and Monetary Aspects, edited by J.S. Wilson and C.F. Scheffer. Leiden: A.W. Sythoff, 1974.

Vollmer, Donald. "How Bank of America Went 'Multinational'." The Banker 122 (June 1972): 781-789.

Waage, John A. "Meeting the Banking Needs of Multinational Companies." In Bankers Handbook, rev. ed., edited by William Hubert Baughn. Homewood, Ill.: Jones Irwin, 1978.

"We Don't Blacklist Countries: We Just Evaluate Risk."
Euromoney, December 1977, pp. 88-91.

Weinert, R.S. "Why the Banks Did It." Foreign Policy
30 (Spring 1978): 143-148.

Wetzel, C.R. "The Role of the Edge Act Corporations in
Transnational Financing." American Journal of
International Law 64 (September 1970): 91-93.

Wilmouth, R.K. "International Banking: New Directions,
New Dimensions." Journal of Commercial Bank
Lending 58 (August 1976): 9-15.

Wilson, J.S.G. "The Structure As a Whole." The Banker
107 (March 1957): 176-185.

Wonnacott, Paul. The Floating Canadian Dollar. Washington:
American Enterprise Institute, 1972.

Wrocklage, F.E. "Bank Holding Companies." In The Future
of Commercial Banking, edited by W.O. Candilis.
New York: Praeger Publishers, 1975.

Yassukovich, S.M. "The Growing Political Threat to
International Lending." Euromoney, April 1976,
pp. 10-15.

Bank Reports

Bank America Corporation. Annual Report. San Francisco,
1969-1977.

Bank America Corporation. Form 10K. Annual Report
pursuant to Section 13 or 15(d) of the Securities
Exchange Commission Act of 1934. San Francisco,
1977.

Bank of America. Annual Report. San Francisco,
1950-1968.

Bank of Canada. Annual Report. Ottawa, 1950-1975.

Bank of Montreal. Annual Report. Montreal, 1950-1977.

The Bank of Nova Scotia. Annual Report. Toronto, 1950-1978.

Bank of Toronto. Annual Report. Toronto, 1950-1954.

Bankers Trust Company. Annual Report. New York, 1965.

Bankers Trust New York Corporation. Annual Report. New York, 1966-1977.

Bankers Trust New York Corporation. Form 10K. Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Commission Act of 1934. New York, 1976 and 1977.

The Canadian Bank of Commerce. Annual Report. Toronto, 1950-1959.

The Canadian Imperial Bank of Commerce. Annual Report. Toronto, 1960-1978.

Chase Manhattan Bank. Annual Report. New York, 1963, 1965, 1967, 1968.

Chase Manhattan Corporation. Annual Report. New York, 1969-1977.

Chase Manhattan Corporation. Form 10K. Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Commission Act of 1934. New York, 1977.

Chemical New York Corporation. Annual Report. New York, 1973-1977.

Chemical New York Corporation. Form 10K. Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Commission Act of 1934. New York, 1977.

Citicorp. Annual Report. New York, 1972-1977.

Citicorp. Form 10K. Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Commission Act of 1934. New York, 1977.

Continental Illinois Corporation. Annual Report. Chicago, 1971-1977.

Continental Illinois Corporation. Form 10K. Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Commission Act of 1934. Chicago, 1977.

Crocker-Anglo National Bank. Annual Report. San Francisco, 1957-1962.

Crocker-Citizens National Bank. Annual Report. San Francisco, 1963-1968.

Crocker First National Bank. Annual Report. San Francisco, 1950-1956.

Crocker National Corporation. Annual Report. San Francisco, 1969-1977.

Crocker National Corporation. Form 10K. Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. San Francisco, 1977.

The Dominion Bank. Annual Report. Toronto, 1950-1954.

First Chicago Corporation. Annual Report. Chicago, 1969-1977.

First Chicago Corporation. Form 10K. Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Chicago, 1977.

First National Bank of Chicago. Annual Report. Chicago, 1950-1968.

First National Boston Corporation. Annual Report. Boston, 1970-1977.

First National Boston Corporation. Form 10K. Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Commission Act of 1934. Boston, 1977.

First National City Bank. Annual Report. New York, 1960-1967.

First National City Corporation. Annual Report.
New York, 1968-1971.

The Imperial Bank of Canada. Annual Report. Toronto,
1950-1959.

Manufacturers Hanover Corporation. Annual Report.
New York, 1970, 1973 and 1977.

Manufacturers Hanover Corporation. Form 10K. Annual
Report pursuant to Section 13 or 15(d) of the
Securities Exchange Commission Act of 1934.
New York, 1977.

Manufacturers Hanover Trust Co. Annual Report.
New York, 1967-1969.

Marine Midland Banks Inc. Annual Report. Buffalo,
1968-1977.

Marine Midland Banks Inc. Form 10K. Annual Report
pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934. Buffalo, 1977.

Marine Midland Corporation. Annual Report. Buffalo,
1959-1967.

J.P. Morgan & Co. Inc. Annual Report. New York,
1970-1977.

J.P. Morgan & Co. Inc. Form 10K. Annual Report
pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934. New York, 1977.

Morgan Guaranty Trust Co. Annual Report. New York,
1965.

The Royal Bank of Canada. Annual Report. Montreal,
1950-1978.

Security Pacific Corporation. Annual Report. Los
Angeles, 1972-1977.

Security Pacific Corporation. Form 10K. Annual Report
pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934. Los Angeles, 1977.

The Toronto-Dominion Bank. Annual Report. Toronto,
1955-1978.

Wells Fargo & Co. Annual Report. San Francisco,
1972-1977.

Wells Fargo & Co. Form 10K. Annual Report pursuant to
Section 13 or 15(d) of the Securities Exchange Act
of 1934. San Francisco, 1977.

END

03 · 03 · 80

FIN